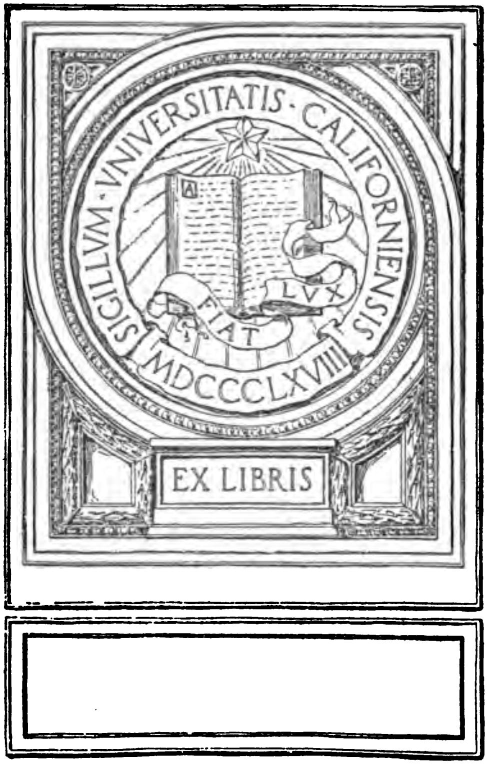
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THE MECHANISM OF COMMERCIAL CREDIT

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TERMS OF SALE AND TRADE ACCEPTANCES

BY

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TO

M. F. D.

PREFACE

This book is addressed to the business man, the credit man, the banker, and the student.

Men in all lines of business are daily called upon to decide whether they will pay cash for their purchases or instead will buy on credit. Conversely, they themselves are called upon to decide what terms they will offer to those who buy from them. These fundamental questions are all too frequently decided by the average business man without sufficient knowledge of the factors involved, and consequently without regard, in many instances, to the most advantageous and effective credit arrangements. The smaller business man who incidentally handles his own credits is naturally under the greatest handicap, but for those who devote their entire time to serving as credit men in larger houses knowledge of this kind is no less important. In fact, their study of the subject of commercial credit should be much more thorough.

Bankers constantly require a knowledge of credit practices in different lines of business. Furthermore, in granting loans they must continually give consideration to the factors that determine these credit arrangements. In other words, they must have an intimate knowledge of the mechanism of commercial credit and the manner in which it operates. Not only is this true directly for their daily tasks, but from a broader point of view such knowledge is no less necessary in order to enable them to understand the relation of the bank to commercial and industrial life.

Students of business are paying increasing attention to the rôle that commercial credit plays in the modern busi-

ness structure, and a growing number of colleges and schools of business are offering courses that, wholly or in part, are devoted to a study of the subject.

The reader will find in this book both a summary of credit practices in leading industries and an analysis of governing principles. "The reason why" need not invariably be difficult to understand, and it is a necessary complement to description of practice. Neither aspect can be neglected. Effort has been made throughout to illustrate the principles by reference to the situation in typical industries.

Equally important with this analysis of the factors at work in the present commercial credit structure is an answer to the questions: How satisfactory is the present system? Should it be modified or supplemented, and if so, how? This raises the entire question of the trade-acceptance system *v.* the cash-discount system, which has been in the forefront of discussion for the past five years or more. Every business man, banker, and student must form an opinion on this question. Previous discussion, too, has been largely partisan, and has not clearly indicated the underlying principles. In the present work effort has been to deal with these features in a clear and concise manner, and to indicate as definitely as possible the conclusions to which this analysis must lead.

In preparing the book the writer has drawn upon various sources for his information. The discussion of terms in leading industries in Part III is based upon studies made by him for the Division of Analysis and Research of the Federal Reserve Board, in the course of which data were obtained from a large number of business houses and trade associations. Each section relative to conditions in a particular line has been submitted to an authority in that industry, as indicated at the appropriate places in Part III. Acknowledgment is due to each of the gentlemen there mentioned. The writer is also greatly indebted

to Mr. H. W. Strong, secretary of the Strong, Carlisle & Hammond Company, Cleveland; Mr. Sidney Y. Ball, president of the Norris, Alister-Ball Company, Chicago; and Mr. Philip Hamburger, Jr., treasurer of Henry Sonneborn & Company, Inc., Baltimore, for kindly reading Part I, dealing with the factors governing terms. In connection with Part II, dealing with the trade acceptance, he is indebted to Mr. John S. Jenks, Jr., of Philadelphia, and Mr. W. W. Orr, assistant secretary of the National Association of Credit Men. Their suggestions, while reflecting opposite views of the question, have materially improved the work.

The writer is also greatly indebted to Dr. H. Parker Willis, Professor of Banking in Columbia University; Dr. Frederick B. Robinson, Dean of the School of Business and Civic Administration of the College of the City of New York; and Dr. George W. Edwards, Assistant Professor of Banking in Columbia University, who have read the entire manuscript and made many helpful suggestions. The opinions expressed in the work, needless to say, are entirely personal, and have no official significance.

W. H. S.

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THE MECHANISM OF COMMERCIAL CREDIT

CHAPTER I

INTRODUCTION

The outstanding feature of modern industry is the long period of time between the extraction of raw materials and their final delivery in some useful form to the consumer. Production is not a simple, direct, hand-to-mouth process. It is complex and roundabout. No article is completely produced until it is ready for use by the ultimate consumer. Production consists of a long series of steps, processes or stages and involves many men and operations, many exchanges and bargains, many transfers and handlings of goods. All this takes time. Parallel with this technical phenomenon of production is the financial phenomenon of credit. By credit we mean the accommodation which one concern extends to another when it gives valuable things in the present in return for a claim to be paid or discharged in the future. There is no credit in a barter and no credit in a cash exchange. Credit does not enter where transactions are fully closed in the present.

Meaning of Terms of Sale.—When a buyer receives goods from a seller on condition that he will pay for them in the future, a credit relationship is established. Usually it is established upon some definite basis, and is expressed in the terms of sale which are quoted. Technically, the

terms of sale specify the time and general conditions of payment by the buyer. They usually consist of two parts: the one part, a certain period of time, such as 60 days, within which payment of the amount of the bill is due, without being subject to any deduction; the other part, a certain period of time, usually 10 days, for payment within which the deduction of a specified cash discount, such as 2 per cent, is permitted from the amount of the bill. The terms then generally include both cash discount and cash discount period, and net terms. Using the illustrations just cited, they will be quoted, for example, as 2 per cent 10 days, net 60 days.

Certain expressions with respect to terms are usually employed. Terms in each different line of business are relatively uniform, so that certain terms exist in such cases which are recognized as "*regular.*" They may be "*recommended*" by trade associations in the particular line and stage, and may call for extra time, or what is known as a "*dating,*" in addition to the net terms which would otherwise be quoted.

But terms of sale cannot be considered as isolated matters. They are inextricably interlocked with many other financial and industrial matters. They are intimately related to the financial problems which every business house must face; and they are an integral part of the general credit system. Both of these in turn react upon and influence the banking system. In other words, finance, credit and banking are all closely joined together, and terms of sale provide one of their mainsprings. As a result, terms have many ramifications and raise many collateral questions, relating to various parts of this large field. It is necessary to set them in their broader framework in order to obtain a clear understanding of their real meaning and significance.

Getting Working Capital.—Consider a medium sized or small business man who has issued neither stocks, bonds,

nor long term notes, and who does not sell his paper in the open market. In case his own funds are insufficient, he may obtain the working capital which he needs for his ordinary operations in one of two ways. He may either borrow from his bank in order to pay wages and other incidental expenses, and to pay cash for goods which he buys, or else he may buy these goods on time instead. When he does the latter, he owes the man who has sold him the goods, and not the bank. Although credit is granted in both cases, in the one it is commercial credit; in the other, bank credit.

A great variety of factors determine which of these two courses the individual business man will follow. This is true even of the relative extent to which the same man will use each of them, and buy a part of his goods on time instead of paying cash with funds which he borrows from the bank. In large measure, these factors relate to the peculiar conditions which surround his individual business, but in many ways practice is the same for all those engaged in a certain kind or class of business.

The Commercial Credit System.—Consider now business houses as a whole, instead of the individual business man. Some houses buy for cash and merely owe the bank, while others buy only on time and thus owe other business houses instead. The great majority perhaps do both, and buy to some extent in each way—part for cash and part on time. They likewise sell part for cash and part on time, granting other business houses the option of paying in either way which they themselves are granted when they buy. Each house thus has certain credit relations with other houses. Taken together, these credit relations between the different houses constitute the commercial credit system.

This system is almost as widespread as our entire economic life and economic activity. Through it the tremendous volume of business in modern economic life is made possible. It serves to effect the exchange of these masses of

goods—goods which are produced under a system of division of labor wherein each individual and each group of men engage in that occupation for which they are relatively best qualified. The system serves also to bind together the various business houses, and to create among them extensive and intricate interrelations and interdependence. No one can stand alone, but each is intimately related to other houses, so that disaster to one often carries in its wake disaster to many others.

Analysis of the System.—The system is not so complex as it may appear to be at first sight. The fundamental features are relatively simple and there is underlying uniformity in certain directions. The credit relations of certain definite groups of houses are similar, and the system may thus be resolved into several component parts. To do this, it is necessary first to analyze the economic process whereby goods are produced and then moved from maker to ultimate consumer.

The economic process when taken in cross section reveals several distinct stages. Some men are engaged in producing raw materials, either of mineral or agricultural nature; others fashion these materials into more or less finished articles, which they may in turn resell to still others who further manufacture them. The spinner sells cotton yarn to the cloth manufacturer, who may merely make grey goods and sell them to the converter, who in turn produces finished cloth. Merchants may next purchase this cloth and resell it to retailers, who in turn dispose of it to the final consumer. The extent and number of these stages of course vary greatly. There are middlemen who deal in various agricultural products, while articles serving as producers' goods, such as machinery, are often sold direct by manufacturers to those who use them as part of their plant equipment. On the whole, however, the major stages are quite clearly defined for any one line of business. In gen-

eral, they may be considered as (1) extraction, (2) manufacture, (3) wholesale trading and (4) retail trading. Each type of product passes through the economic process in what is the regular fashion for its line, and spends a certain average length of time in passing through each of the stages.

Each stage has fairly well defined credit relations with the other stages which are adjacent to it in the process. Most conspicuous, perhaps, is the wholesaler and his relations, on the one hand, with the manufacturer from whom he buys and, on the other, with the retailer to whom he sells. As is generally known, he usually buys for cash and sells on time. These credit relations also imply certain definite relations on his part with the banking system. He must borrow from the banks for a two-fold purpose—in order to pay cash for his purchases, and in order himself to extend credit to his customers. Similarly, every other stage has its own definite relations. At the commencement of the economic process, for example, raw materials are sold for cash by producers, and buyers thus resort directly to the banks for the funds they need. Likewise, at the close of the process, consumption goods are sold at retail in considerable measure for cash, so that the retailer does not have to borrow from the bank to so great an extent in order to extend credit to his customers. In short, every stage has its own definite credit and banking relationships. These relationships are similar in a general way for certain types of business, according to the stage in the economic process in which they belong, and irrespective of the particular goods which each produces or handles. The credit and banking problems of a hardware wholesaler are similar to those of a wholesale grocer—more similar in many ways than are the problems of the wholesale grocer to those of the canner who sells to him.

But at the same time those engaged in any given line of

business are subject to the same influences. The hardware manufacturer, the hardware wholesaler and the hardware retailer are all affected by the ultimate demand for their product. The manufacturer sells to the wholesaler, who in turns sells to the retailer, and there is thus a definite continuity and interdependence between them. Each stage dovetails with and fits into the other. This applies more particularly to the credit than to the banking problems, and the latter feel the influence somewhat indirectly. In any event, however, it is useful to make a two-fold classification according to the kind of credit and banking problem which is experienced—either according to the stage in the economic process, or else according to the line of business.

The apparent complexity of the process in actual life should not be permitted to obscure the simple fundamental features which lie back of it, and have just been explained. Significant for an understanding of the commercial credit system is a two-fold division of the economic process, according to lines of business and according to stages. The credit and banking problems of any individual business man are in considerable measure determined *for* him, rather than *by* him, according to the line and stage in which he finds himself. Each line and each stage has its definite problems. With respect to any one line of business, the interdependence of the successive stages in that line is perhaps most striking. From the credit point of view, the length of time which the article passing through the process remains in each stage is of special importance inasmuch as it fixes an upper limit to the time for which any one stage should be granted credit. This will be seen more fully in Chapter II. From the banking as well as from the credit point of view, the peculiar problems which are found in certain stages, notably the wholesale stage, are perhaps most striking. However, neither division, by stage or by line, can be neglected, and each forms the logical complement of the other.

Relation to Banking.—From the point of view of its relation to banking, the question of the terms employed and hence the structure of the commercial credit system, raises in the first place the question how the paper of the merchant or manufacturer gets into the banks. The primary question is this: whose paper is it—that of the buyer or of the seller, and in what form is it? Where cash is paid, and the buyer discounts his bills instead of paying only at the close of the net period, the buyer goes directly to the bank and borrows from it. Where he instead takes the net terms, the seller must carry him and extend the necessary credit. To do this, however, the seller must go to his bank and either discount the note or acceptance which he may have received from the buyer, or else borrow on his own paper in order to obtain these funds. In the first case the buyer goes directly to the bank, while in the second case the seller goes to the bank and borrows from it the funds which he in effect loans to the buyer when he sells goods to the latter on time. In the first case, the bank has the buyer's paper; in the second case, it has either the seller's paper, or the buyer's paper endorsed by the seller.

In actual practice in the United States to-day, buyers are given the option of paying cash or taking time. Thus they naturally divide themselves into two classes according to whether or not they either possess themselves or can obtain from the bank sufficient funds to enable them to pay the seller cash. The proposals which have been made to reform the present credit system and to introduce widespread use of the trade acceptance in last analysis, however, involve the use of a system of net terms only, under which no option is granted to the buyer, and paper reaches the banks only from the seller. The relative merits of each will be considered fully below. At this point it can merely be indicated that there is involved the further question

whether better credit measurement is obtained under the one system than under the other.

In the second place, the terms employed raise the question of the length of time for which the bank shall make its advances. The period of credit which it grants parallels the period of mercantile credit, and both are based on the length of time for which the borrower or buyer, as the case may be, requires the funds. This, as indicated above, is determined by the length of time which the article he handles takes to pass through his stage of the economic process. The terms of sale are important from the point of view of the bank in this way as well as in the way just indicated.

Scope and Purpose of the Work.—The framework upon which the present book is built is provided by the commercial credit system described above. This system constitutes our subject of study, and is to be considered from several different points of view. Throughout the system terms of varying descriptions are in use. But throughout the structure of terms which exists, certain forces are at work to determine the terms which shall be used under any given conditions. It is not mere chance that manufacturers sell men's straw hats on a single season dating, while wholesale grocers usually sell their goods on terms of 1 per cent 10 days, net 30 days. Nor is it mere chance that cash discounts as high as 7 per cent are found in various branches of the textile industry, while manufacturers of iron and steel products do not grant discounts in excess of 2 per cent.

The first purpose of the present work is to consider the forces which govern the terms now in use, and which determine what the terms shall be in each line and stage, and in each individual case. These forces are clearly susceptible of analysis, and may readily be discovered. They are concerned in large part with the merchandising and general business practices which prevail. They relate both to the

length of the net terms (including the datings granted) and to the size of the cash discounts quoted. In addition to explaining why the regular terms in any given industry are employed, they serve also to explain the deviations from these terms which are found in the case of some individual houses. However, the standard or regular terms which are the result of these forces themselves vary over a series of years in response to changes in general business conditions, and attention will also be paid to the manner in which this variation takes place.

The second purpose is to evaluate critically the present structure of terms in so far as it relates to the present commercial credit system. Various efforts at, and proposals for reformation of the system have been made in recent years, and these strike at the very fundamentals of the system. Is our present cash-discount system good, bad or indifferent? Has it outstanding weaknesses, and if so, how, if at all, may they be remedied? Is it worth while to attempt to remedy them? Do its defects exceed its merits, and, furthermore, is there another and superior system available to supplant it? How does this system compare, point for point, with the cash-discount system? Should the cash-discount system be discarded and the new system—the net-terms or trade-acceptance system—be put in its place?

Sources of Data as to Terms.—To answer both these sets of queries, requires the use, as far as possible, of an inductive method. This calls, in the first place, for comprehensive data as to the existing terms situation and as to merchandising and business practice in so far as it bears on terms. These have been carefully prepared for leading groups of industries, so as not only to show the existing situation, but also to illustrate the application of the forces which govern terms. They are presented in Part III, Chapters XI to XVI inclusive, of the present work. A comprehensive body of actual fact, therefore, provides the

basis for the present study. These data have been carefully analyzed from the points of view indicated in the preceding section.

The data, however, are limited in certain directions. Terms in import and export trade are not included, but domestic trade alone is considered. Neither are terms on agricultural produce and other absolutely raw materials included, and terms in retail trade are also omitted. Where reference is made to these fields, it is necessarily general in character, and the major part of the illustrations are thus drawn from the other fields for which detailed and specific data are available. The general forces which are discussed, however, are universal in their application and apply equally to both fields.

Previous Studies.—Little help may be obtained from previous studies of the subject of terms. They are generally both scattered and fragmentary, and fall roughly into two classes: (1) statements of terms in a number of lines, and (2) discussions of the situation in a particular industry. Most of the regular works on credits and collections devote a few pages to the subject, usually, however, only to indicate the nomenclature. At most, a chapter is devoted to a brief discussion of principles and a statement of the situation in a few leading lines, as, for example, in Volume 8 of the Modern Business Series of the Alexander Hamilton Institute. The *Credit Monthly,* and its predecessor, the *Bulletin of the National Association of Credit Men,* contain a few brief statements, and so also does Rinsfoos' book on *Purchasing.* Some material may also be found in various other scattered works, such as the Banking Law Journal Year Book for 1915, on *Commercial Paper and Bills of Exchange,* and Kniffin, *Commercial Paper.*

In general, however, these works have the defect of being mere statements of facts with respect to regular terms. Little or no attempt is made to analyze and indicate the

factors which determine what terms shall be employed, and in most cases no marketing and other data necessary for an understanding of the terms are appended. Analysis is found to a greater extent in discussions of terms in a given industry. Prominent among this class of works are addresses, reports of committees on terms, and discussions at trade association conventions, as well as discussions at group meetings at the conventions of the National Association of Credit Men. From time to time, articles also appear in trade and less frequently financial journals. The former also contain, at times, statements of the policy of individual business houses as to terms. Certain studies dealing with particular industries also consider the problem at greater or lesser length. Among these may be mentioned Onthank, *The Tanning Industry* and Dodd, *Lumbering,* both published by the Robert Morris Associates, several studies of the Miscellaneous Series of the Bureau of Foreign and Domestic Commerce, for example, No. 34, relative to men's clothing, several of the studies of the Federal Trade Commission, especially those on agricultural implements, and Cherington, *The Wool Industry.* In all of these, considerable data as to marketing are included.

The above discussion relates solely to the question of material on the existing terms situation. With respect to reforming the commercial credit system, there has been a great body of literature relative to the trade-acceptance and cash-discount systems in recent years. This will be indicated at the appropriate place in Part II.

Divisions of the Work.—In view of the considerations noted above, the present work will be divided into three principal parts. The first part will analyze the existing structure of terms from the point of view of the forces which operate throughout that structure to determine the terms in use. In Chapters II to V inclusive, the forces will be successively indicated which determine the standards as

to length of net terms and datings, and the size of the cash discounts which are granted. Chapter VI will consider the forces which cause the standards or regular terms themselves to change in harmony with changes in general business conditions. In all six chapters, illustrations will be drawn from various lines to show the operation of each of the forces or factors which are discussed.

Chapters VII to X inclusive will carry out the second purpose of the present work. Chapters VII and VIII will afford a background by treating specifically of the present use of the trade acceptance and indicating its growth in recent years. After this, the present structure of terms will be considered from a critical point of view and contrasted with the net-terms trade-acceptance system which has been strongly advocated in some quarters in recent years. In drawing these contrasts, the several questions already mentioned will be considered in detail.

Finally, the third part of the work will be primarily descriptive in character. It will afford a comprehensive statement of the terms actually in use, and will also enable the reader to observe the operation of the forces indicated in Part I. Chapters XI to XVI inclusive will therefore give a description of the present terms situation in leading groups of industries. In these chapters both terms and the marketing situation in so far as it relates to terms will be presented. These chapters are based upon material prepared by the writer which appeared in various issues of the *Federal Reserve Bulletin* in 1919 and 1920.

PART I

FACTORS GOVERNING TERMS

CHAPTER II

LENGTH OF NET TERMS

In proceeding to analyze terms of sale, it is necessary to commence with the net terms. As will be seen later, the cash discounts are intimately related to them, while, furthermore, similar factors are at work in both cases. These factors determine both the length of the net terms and the size of the cash discounts which are granted. With respect to the length of the net terms, the factors consist chiefly in an elaboration of three central points. They operate throughout the economic process as a whole, and irrespective of the particular industries in question. They operate in retail trade as well as wholesale, and in the case of wheat as well as machinery. Each of the three factors will be considered in turn.

The Fundamental Factor

To understand the fundamental factor governing the length of the net terms, goods should be divided into several classes. First are articles bought either to work up or to resell in the same form. They serve the purchaser—whether manufacturer or merchant—as circulating capital. They are destined to be turned over within a relatively short period of time and thus be converted into cash, with which payment may be either made for them or other goods may be purchased, and the cycle repeated. Second are articles which are bought for use by the purchaser as fixed capital, as, for example, machinery. It yields only a relatively small return year by year, so that the purchaser must either have the funds to pay cash for it, or else obtain

a definite loan of capital. The machinery itself cannot provide the funds. Third are articles in the hands of the retailer in final form ready for consumption. The consumer either pays cash from funds on hand, or else defers payment until the next pay day. Obviously, the articles themselves do not provide the means of payment. Each of these three classes of goods requires separate treatment, and will be discussed in succession.

In order to simplify the discussion, consider first articles bought for resale. In any given transaction, when is the buyer able to pay the seller for the goods which he has purchased? When he has funds in hand. Assuming that the capital which he has invested in his business is fully employed, this depends upon the time when he not only sells the particular article which he has purchased, but when he himself receives payment for it from the person to whom he in turn has sold it. He must wait until he himself receives payment before he can in turn pay his own bill. In other words, his ability to pay depends upon the rapidity with which he turns over the goods, or rather the capital which the goods represent. In technical economic language, this period or interval between the incurring of cost and the receipt of payment when sold may be termed his marketing period. For the individual buyer, it may reasonably and naturally become accepted as the standard for the length of the net terms which he is granted.

This analysis may be carried one step further. In the case of any given article, the buyer's marketing period ultimately depends upon how rapidly the final consumer buys the article. He fixes the rate of consumption, and this is reflected back to each of those who handle it in turn.[1] The slowing up in the distribution of goods in 1920 as a result of the buyers' strike, with its drop in sales and

[1] It is also reflected back ultimately even to the machinery which produces the article in question.

accumulation of inventories by manufacturers and wholesalers as well as retailers, clearly illustrates this. In other words, in last analysis, the length of the net terms in any one stage—whether manufacture, mercantile or retail—and the buyer's marketing period, are but a reflection, perhaps modified somewhat under certain conditions, of what may be termed the consumption period for the particular article in question. This is the fundamental economic factor. It is reflected more immediately in any one stage through the buyer's marketing period. The manufacturer's technical production period—the time required for the manufacture of the article in question—is entirely subordinate to the marketing period. The aim of the technician is merely to have the production period not in excess of the marketing period.

But this is by no means the entire story. The principle or factor may be applied in a variety of ways, and moreover, as will be seen later, it merely tends to set an upper limit to the length of the net terms, instead of absolutely fixing their length. It is therefore necessary first to illustrate the various applications of the principle, in order to see exactly how it operates. It should be remembered, however, that it is exceedingly difficult to obtain examples where other factors are absent and which, therefore, show merely the influence of a single factor. Thus the use of any particular illustration implies that the factor in question is powerful enough to be observed in the selected case, rather than that it is the sole factor in operation.

Nature of the Article.—Both the consumption period and the marketing period in any one stage vary with the nature of the article. Four points must be considered: (1) whether the sale involves a large or a small amount; (2) whether the article is preservable or perishable; (3) whether it is standardized or subject to changes in fashion or style; and (4) whether it is for seasonal or for recurrent

use. The article, moreover, may either merely turn over slowly, or, in other cases, may involve considerable risk and not be sold at all, thus becoming a total loss.

1. The influence, especially to the consumer, of the amount involved in the sale, is seen when contrasting a house, automobile, piano or diamond ring with a newspaper, box of candy or alarm clock. The contrast has been well drawn by Mr. S. Y. Ball in the following language:[2]

> Cash is readily available for the small purchase; but as the amount involved increases and becomes sizable, we reach and pass beyond the consumer's immediate financial ability. Time in which to accumulate further money is necessary—so terms are arranged—and months, even years, are granted the purchaser within which gradually to pay over the sale price. So that, in the jewelry business, those who specialize on merchandise involving large amounts, notably diamonds and diamond jewelry, very properly prepare to help finance the long time required by the ultimate consumer to complete payment. On the other hand, our friends who have made the alarm clock a profitable small sale for the jeweler, with equal propriety ask and receive payments practically spot cash.

Similar, though far less striking, are the reasons underlying the terms on canned goods. They are, as a rule, bought in quantities to cover requirements of a longer period of time than, say, meats, and hence carry longer net terms (30 days, or less frequently 60 days) in order to induce their movement in larger quantities.

2. The effect which the degree of perishability has upon the terms is well illustrated in the case of meats. Packers usually sell fresh meats to retail dealers on a weekly basis, and in some cases they collect by a specified day of the week for all deliveries during the preceding week. On the other hand, cured meats and canned meats are sold to a considerable extent on 30-day terms. On a distinctly

[2] Report of the Committee on Terms and Discounts, National Wholesale Jewelers' Association, presented at the June, 1920, convention.

perishable article, especially if the buyer does not possess much financial strength, terms cannot very well be long if the seller may have to take back the merchandise in the event of non-payment of his bill.

3. The degree of standardization has a complex influence upon terms. Standardization, as Mr. Ball notes in the report just quoted, may refer either to price or to quality, while in another sense distinction between standard and non-standard goods is paralleled roughly by the distinction between luxuries and necessities. In ordinary times standard goods may be purchased as needed from day to day. Hence, to draw an illustration from the jewelry industry, American watches and clocks and sterling and plated silverware are sold on short terms. Manufacturers, in general, grant one month to wholesalers on all these items except clocks, where terms range from 10 to 30 days. Furthermore, when such lines are advertised and the customer is educated in advance as to price and quality, less need exists for stocking up such merchandise for purposes of display and selection. On the other hand, non-standard goods need to be stocked, arranged, examined and discussed as to price and quality. The ultimate customer makes his selection when it is convenient for him, and makes it from the goods which the dealer displays. Terms must be lengthened correspondingly, and in the jewelry business diamonds, watches and imported jewelry, therefore, require longer terms. Only as the goods are delivered by the seller at the time they are wanted by the buyer, will shorter terms normally be found. Absence as far as possible of stocking-up of merchandise, such as women's apparel, by the seller in fact is found largely in lines where the style risk is great. This, however, raises the entire question of the system whereby the article is marketed, to be considered in more detail later.

4. Several of the factors just indicated point to the

difference between seasonal and current use of the merchandise. Goods sold for current use do not remain long in the hands of the buyer, and so he is not entitled to long terms. Packers, for example, very properly, rarely grant terms longer than one week on fresh meats. Again automobile tires during the spring and summer are promptly resold by dealers, and carry terms of 5 per cent 10th proximo (tenth day of the following month). During the winter, however, dealers accumulate a stock of tires, and receive a spring dating in order to enable them to make sales and collections with the advent of the new season. The influence of this factor is even more pronounced in an industry which has but one season a year. Manufacturers of men's straw hats therefore sell to jobbers on a May 1 dating and to retailers on a June 1 dating. Terms on goods for seasonal use, however, involve the entire question of datings, which will be treated in detail later.

When viewed in a somewhat different way, the nature of the article may be more specifically related to the consumption period. Articles, in general, may be classified as absolute necessities; semi-necessities, or articles necessary for comfort; and luxuries. These three groups of articles differ distinctly in regularity of use, rapidity of turnover and constancy of demand. Food must be regularly eaten, and within a relatively short period of time after its preparation. The amount spent for it is much less affected by adverse conditions than is the amount spent for either of the other two groups. The demand for it thus possesses an element of regularity which is found to a much lesser extent in the case of semi-necessities, and is lacking in the case of luxuries. The consumption periods differ accordingly. This difference is distinctly reflected in the terms generally found for each group of articles.

"Pay-Day" Terms.—The time when the buyer is able to pay for goods merely reflects the time when those

who purchase from him in turn are able to pay. The ability of the second buyer to pay is then reflected back to the original buyer and perhaps in turn to the seller of the goods in the original transaction. This was illustrated in the quotation above from Mr. Ball's report as to terms in various branches of the jewelry industry, where the wholesaler found it necessary to consider the time when the consumer would be able to pay the dealer. It is readily apparent that this is likewise the case with terms in seasonal industries. But perhaps the best illustrations are found in the case of articles of current consumption sold to retailers. In such cases, "pay-day" terms may be employed. Packers sell on these terms in railroad, steel mill and mining towns, where the retailer carries the worker from one pay day to another, and where the due date of his bills is accordingly adjusted to the pay days, frequently being semimonthly. Recent laws in certain states requiring the payment of wages twice a month, are said to have rendered possible the material reduction of such terms.

The distinction sometimes made by packers and wholesale grocers between their terms to the city and to the country trade also takes account of the consumer's ability to pay the retailer. Several packers grant weekly terms to their city trade, as against from two weeks to a month to their country trade. A grocer in the Rocky Mountain section states that in the largest cities weekly payments are the rule, and in industrial cities bi-weekly payments, while country sales carry the regular terms of 1 per cent 10 days, net 30 days. These differences are explained by the fact that in the largest cities business activities are diversified, with frequent receipt of funds by consumers, and consequent ability to pay the retailer regularly and at short intervals. In industrial cities, however, pay days must be considered, while in the country consumers have no regular and recurring source of income.

Customary Settlement Dates.—Allied in some ways to the pay days just indicated are the customs peculiar to certain localities, which have grown up with respect to the time when settlements of obligations are to be made. In their inception these undoubtedly bore a relation to the ability of the purchaser to pay, but in some cases they appear at present to represent a survival of tradition, rather than to have a more substantial basis in present conditions. Various illustrations of the practice may be given. In San Francisco the custom is still found to some extent of settling twice a month on the so-called "steamer days"—the 14th and the 28th—on which steamers formerly arrived. Again, forty years ago, April 1 was the customary settlement date in the territory known as "Pennsylvania Dutch." This was adhered to in certain sections, such as in Berks and Lancaster counties, until comparatively recently, and rendered it difficult for jobbers some years ago to introduce the regular hardware terms. In the Middle West, March 1 still continues to be the regular settlement date for purchases of farm lands.

Geography of Terms.—Carrying out further the thought of a customary settlement date, it will be observed that certain sections of the country have certain seasons of the year in which their entire payments are concentrated. The classic illustration is afforded by the one-crop agricultural sections. From the proceeds of their crop they pay for the products which they have obtained on credit during the growing season from other sections. Broadly speaking, then, their marketing period may be regarded as running from the time of planting in the spring until the time of marketing in the fall. These sections are twofold: (1) the South, with its cotton crop; (2) the Northwest, with its grain crop. Prior to the fall of 1920, however, the South had been prosperous for several years as a result of the high price of its cotton and tobacco, and as a conse-

quence terms granted in wholesale groceries, for example, were approaching closer and closer to the standards in effect in other parts of the country. The same is true in the West. Several middle-western millers note a change during the past several years in terms on carload shipments of flour to intermountain territory, and there is a tendency for the former 30 to 90 days' open-account terms to be replaced by arrival-draft terms.

Further forms of geographical differentiation of terms may be cited. These illustrations, which are taken entirely from the wholesale grocery line, relate likewise to seasonal influences, but consider also the minor crops and more restricted sections of the country. In Georgia payments are prompter and more purchasers discount their bills in the fall and winter, while in the Kentucky tobacco sections, on the other hand, an extension of 60 days is often requested in the fall, as the crop moves somewhat later. In Oklahoma payments are concentrated after the harvest, and few discount their bills during the growing season. An Omaha firm noted in 1919 that the only overdue accounts it had were those of some far-western customers selling to ranchers, who carried the latter until either the stock or the wool clip was sold. Sectional differences are thus found in the payment activity of buyers, both with respect to the proportion of accounts past due and the proportion discounted, as well as in the terms which are specified.

Terms on Manufacturers' Raw Materials.—Terms on goods which are to serve as raw material for a manufacturer, as contrasted with goods bought for resale, involve no special considerations. They are, however, ordinarily short. Thus, taking the principal raw material which enters into a given product, cotton print cloths are generally sold on terms of net 10 days, as are also grege goods to silk converters. Likewise, in the men's hat industry, hat bodies in the rough, forming the raw material for the dry shops

which finish and trim the hats complete and ready for sale, carry regular terms of net 30 days. The same is true of auxiliary materials such as fuel. Coal and coke are sold, both by producers and wholesalers, largely on terms of net 30 days.

In all these cases, however, certain of the factors also apply which have already been considered as making for shorter terms. In every instance the article in last analysis may be regarded as perishable, for its identity is soon lost, while in addition in certain instances it is distinctly for recurrent as contrasted with seasonal use. A further factor, which will be discussed in detail in the following chapter, concerns the difference in relative economic strength between buyer and seller.

Terms on Fixed Capital Goods.—The second class of goods are those destined to serve as fixed capital goods to the buyer. They require far more detailed analysis than do circulating capital goods. In general, the buyer himself is expected to own his fixed equipment. He therefore should pay either cash or else what approximates cash; for instance, within 30 days, for additions which he makes to it, as well as for repairs and replacements. This is likewise true in the case of certain articles for which the delivery in effect is delayed, payment merely being adjusted according to time of delivery. A leading manufacturer of machine tools grants 60 days, 90 days or even 4 months on large tools which cannot be made available for use at once, in place of the regular terms of net 30 days. Similarly, manufacturers of power machinery make exception to the regular terms of net 30 days in cases where the machinery is to be erected, or when the amount of the order is large, and the process of manufacture takes some time. The terms differ somewhat with the individual manufacturer, but in general an initial payment is required, followed by others at specified intervals, and a final payment upon completion

of the work. Thus the terms, for example, may call for 60 per cent upon shipment, 20 per cent in 30 days thereafter, and 20 per cent when the material has been erected. In any event, payment is made regularly as the work progresses.

Shipbuilders' terms afford another illustration. They provide for an initial payment upon execution of the contract, usually for 5, 10 or 15 per cent and in rare cases 20 per cent of the purchase price. Subsequent payments of equal amount are required when certain steps in the building of the vessel, such as laying the keel, plating, launching, etc., have been completed. The number of payments varies with the type of vessel and the estimated time required for completion, but is stated to be approximately 10 or 12. The final installment, varying from 5 to 10 per cent, is generally due upon completion and delivery of the vessel.

An additional point arises in connection with terms on the builders' hardware which manufacturers sell direct to the contractor or consumer in New York City and vicinity. It is the custom to require payment of 85 per cent of each month's deliveries by the 10th of the following month, and the remaining 15 per cent in 30 days after the completion of the building operation. In this case, the terms on fixed capital goods are applied to articles which in fact represent merely circulating capital to the buyer, albeit circulating capital which is not of the kind ordinarily considered.

Carrying the Purchaser.—In certain cases manufacturers of fixed capital goods will carry the purchaser for some time, instead of actually specifying cash. Such credit is of course outside the realm of ordinary trade accommodation, as is also time in excess of his customary marketing period granted a buyer of goods for further manufacture or resale. In either case, a loan of capital on a more permanent basis is made. The buyer's ability to pay for

fixed capital goods arises from factors outside the goods themselves, and the amount involved is relatively larger than in the case of circulating capital goods. Hence provision is usually made for installments which periodically reduce the total amount due the seller, while he retains title to the goods until the buyer makes the final payment. More definite security and greater safeguards are thus introduced than in the case of circulating capital goods.

The general factor determining the extent to which sellers in any given industry carry purchasers of capital goods will be fully discussed in the following chapter. Practice naturally varies according to the industry in question. In some lines where the use of these terms is rare, such as in connection with manufacturers' sales of railway equipment, each individual case will be considered on its merits, while in other industries, where the practice is more frequent, fairly definite norms or standards have been established. In general, the terms call for payment of part of the amount upon delivery, followed by subsequent more or less periodical payments. In the case of articles specially manufactured, an initial payment may be required with the order. Where machines are sold on such terms, the seller usually secures himself by retaining a direct interest of one kind or another in the article until it is fully paid for. He may do this by means of a chattel mortgage, a conditional sale or a lease agreement whereby he retains title and merely leases the machine to the buyer until final payment is made. Practice on this point varies according to the laws of the several states.

An illustration of such terms is afforded by dealers who sell machine tools on time. They require an initial cash payment, such as 1/2 or 1/3, with order or upon receipt of bill of lading, and cover the balance by interest-bearing notes maturing monthly for three, four, or in some cases six months. They either retain title or else use a chattel

mortgage. A larger item naturally carries longer time. Manufacturers who sell printing machinery on time require an initial payment of about 1/4, and the balance is due within 24 months, being represented by interest-bearing notes maturing monthly and secured by a lien on the machinery.

In some cases securities issued by the purchaser are accepted in payment for fixed capital goods. Prior to 1917, it was reported the general practice in certain cases, such as for large bulk cargo ships, to accept one-half the purchase price in first serial bonds, maturing in from 1 to 10 years. A study made in 1916 indicates that in some cases cotton mill stock and bonds were accepted in payment for machinery.

Terms in Retail Trade.—The third class of goods are those in the hands of retailers in final form ready for consumption. Retailer's terms are likewise determined by the buyer's ability to pay. When the consumer cannot pay cash, he is carried until he periodically receives funds, whether from returns for services rendered or from returns on capital invested. Bills due for articles purchased for current use are rendered regularly, as in the case of the "pay-day" terms considered above. For larger items, such as household effects, time is often required, and the installment plan is in vogue. In place of payment out of savings from past earnings, payment from current earnings is made. Terms on items such as pianos or furniture parallel the terms which have just been considered on power machinery, etc., and provide the counterpart in what may be called the consumptive field to the other terms in the industrial field.

The Marketing Period in Relation to the Bank.[3]—The bank which lends to a business man must consider his marketing period, as well as the party who sells him on

[3] Compare the writer's *Some Aspects of Banking Theory* (New York, 1920), Chap. iv.

time. In last analysis, the bank lends in order to supply him with current working capital, which he then generally uses to purchase goods or materials for further manufacture or for resale. The bank merely puts itself in the place of the business man who would otherwise have sold the merchandise in question to the borrower on time.

But the bank does not consider merely a specific lot of goods. Rather does it consider all the goods handled by the borrower—in other words, the totality of his operations, both purchases and sales. Its horizon is thus broader than that of any single seller. For it, the buyer's marketing period is rather a seasonal thing. It asks itself the question: when will this particular man be able to clean up the accommodation received from us. At that time it expects complete liquidation of his loans. For it, therefore, the borrower's marketing period on part of his line of credit may well exceed the time required to move any specific lot of merchandise. This seasonal period sets the upper time limit for the bank's loans. Furthermore, because it finances a number of firms in any given industry, its interest and outlook is broader than that of any single individual, and the consumption period for the industry may often become a more real factor to it.

The Marketing System

The second factor which determines the length of the net terms is the system whereby the article in question is marketed. The purchaser may merely buy the goods as he needs them, or he may buy for stock. In the first case his marketing period is short, and the time which he requires is correspondingly short. To the extent that he buys for stock, his turnover becomes less rapid and his marketing period is lengthened, as is also the time which he requires. Taking the case of a sale by a manufacturer to a retailer,

the upper limit to the time which may be extended is fixed by the length of time which the merchandise is made in advance of purchase by the final consumer. To the extent that the article is manufactured in advance of purchase by the final consumer, there is a period during which either the manufacturer or the retailer may carry it, and to the extent that the retailer carries it, the terms which he receives are correspondingly lengthened.

The present problem may appear to be merely an elaboration of several of the points outlined at the opening of the chapter in considering the underlying principle. In particular, the difference between seasonal and current use was mentioned at that point, in connection with the discussion of the nature of the article. But, while there is some truth in this view, the problem in fact is of prime importance. It is intensified by the system of production for a market instead of to order, which is a distinguishing characteristic of the present economic order. Moreover, it is far wider in scope, and involves also the question of the division of the carrying burden between the several factors in the economic process, such as the manufacturer, the wholesaler and the retailer.

Industry as a whole bears a certain burden of waiting from the time of initial production of an article until the time of final consumption, as well as a credit risk in connection with such waiting. Some participant in the process —manufacturer, wholesaler or retailer—must assume the burden. The terms which are granted determine who shall do this. Thus they push these disadvantages backward or forward, or else locate them in the middle of the economic process whereby any given article is produced and distributed.

Some Illustrations.—The custom tailor may purchase his woolens in one of two ways. He may go to a woolen jobber and select certain styles, purchasing one or more suit

lengths of each pattern, which he then keeps in stock and cuts up as he receives orders from customers to whom he has displayed them. In this case he keeps the goods in stock, and furthermore runs the risk of not selling some of them. To avoid this he may instead purchase his woolens only as needed. In this event he arranges with one of the so-called book houses for a set of their samples, which he displays to the customer. When the latter has made a selection he orders a suit length of the particular style from the book house. In this case, he shifts to the book house both the burden of keeping the goods in stock, and the risk of not selling some of them. Accordingly, the terms which he is granted differ greatly in the two cases. He receives long time where he stocks the merchandise, while he pays cash where he takes it only as he needs it. The association of old line woolen jobbers has recommended terms of 7 per cent 10 days, 6 per cent 30 days, 5 per cent 60 days, net 4 months, with invoices dated ahead about two months, and these represent the standard jobbers' terms. On the other hand, a large proportion of the customers of book houses send cash with order, or accept C. O. D. shipments.

While this case may appear merely to afford the buyer the option of making his purchases in one of several ways, when examined in the reverse manner, it appears that a similar alternative is open to the seller. The book houses, in fact, avail themselves of it, as they usually conduct a regular jobbing business also. In between the two alternatives, and somewhat akin to each, is consignment business. This was widely employed some years ago by manufacturers of auto tires, as well as prior to 1912 in the case of over 50 per cent of the fur manufacturing industry, but it has steadily lost ground wherever it has been used. While it is true that in such cases the goods have not actually been purchased by those to whom they are shipped, nevertheless the time granted is automatically adjusted to the marketing

period. The retailer is granted credit for a period exactly equal to the time during which he carries the merchandise.

Two further illustrations of the interrelation between terms and marketing methods are instructive. Accompanying the decrease in the length of manufacturers' terms on agricultural implements has been the fact that dealers do not place as large initial stock orders as formerly, while direct shipments from factories to dealers have also decreased, so that the manufacturers themselves are required to carry larger stocks at distributing points. On the other hand, consider refiners' terms on sugar in the summer of 1920. The normal terms are 2 per cent for payment within 7 days after arrival, or 10 days from date of delivery in the case of local deliveries by truck. In order to help carry stocks and prevent sacrifice sales, with consequent demoralization of the market, refiners extended credit at that time. By doing this they recognized that a newer and slower buyers' marketing period existed at that price level, and adjusted their own terms accordingly. Buyers in effect were purchasing, partly at least, for stock, rather than for current use only, and the marketing system had changed accordingly.

The forces, which determine exactly in what proportion the time elapsing between the manufacture of the article and its final sale to the consumer is divided between the manufacturer and the retailer, will be considered in detail in Chapter IV when discussing the theory of datings. This division of time, however, by no means alters the fact that the manufacturer in last analysis actually assumes the burden of financing in either case. He provides the funds which the merchandise represents, whether he himself holds the article or whether the retailer holds it. It should also be noted that the problem concerns largely articles which will be consumption goods in their final form rather than production goods.

The Wholesaler's Credit Function.—The wholesaler plays a prominent rôle in the marketing system. The orthodox view considers an article passing from manufacturer to wholesaler and in turn from wholesaler to retailer. In this system the wholesaler performs certain services which are well known. For the present purpose the outstanding feature is the assembling of a variety of goods produced by a large number of different manufacturers. The wholesaler then keeps the merchandise in stock and subsequently passes it on to a large number of different retailers as the latter desire it. Gathering these goods together from a multiplicity of sources he then distributes these same goods when and where they are needed. In technical economic language, he takes the form utilities which the manufacturer has created, and adds to them time and place utilities. Most conspicuous among the lines in which he operates are groceries, hardware, dry goods and drugs.

In selling to the larger number of different retailers, wholesalers also perform what may be termed their credit function. They lighten the manufacturer's credit work by making it necessary for him to keep check only on a smaller number of wholesalers instead of on a multiplicity of retailers. The wholesalers themselves keep check on the retailers. But they do even more. They not merely intervene in the capacity of credit men, but they also take over from the manufacturer to some extent the burden of supplying the funds which the goods they are engaged in passing from manufacturer to retailer represent. In other words, the burden is divided between manufacturer and wholesaler, instead of being confined to the manufacturer, as was the case in the illustration given above.

The extent to which the burden is divided will differ according to whether or not the particular industry is strongly of a seasonal character. In non-seasonal industries,

the wholesaler generally buys for cash (by discounting his bills), stocks the merchandise, ships only as ordered by the retailer, and sells on time. In highly seasonal industries, on the other hand, the entire time elapsing between the manufacture of the article and its final sale by the retailer is more definitely divided between manufacturer and wholesaler. The manufacturer's terms to the wholesaler generally call for payment at a definite season date (assuming that the latter discounts his bills), and the wholesaler then carries the retailer until a further net due date.

Manufacturers' and Wholesalers' Terms.—There are numerous variations in actual practice from the orthodox marketing system. Several of them are of particular importance in relation to terms. In some leading industries the regular marketing chain runs from manufacturer to retailer. This is the case, for example, with meat packing and men's and women's clothing, as well as with industries concerned with capital items such as machinery or agricultural implements. In all these industries the range of products handled is greatly narrowed and the manufacturer himself, in part at least, must perform the jobber's function of maintaining an adequate stock of goods as well as the credit function. In other industries marketing methods vary with the different manufacturers. Some sell direct to the retailer, while others sell to the wholesaler, or else the same manufacturer sells to both. Examples are afforded by industries as dissimilar as boots and shoes and confectionery. In such industries the problem arises of the relation which manufacturers' terms to wholesalers generally bear to manufacturers' terms to retailers. This depends very largely upon the extent to which retailers as well as wholesalers in any given industry buy in advance of their immediate needs. Where the retailer does this, and therefore stocks the article to some extent, there is generally a tendency in non-seasonal lines for manufac-

turers' terms to retailers to be either longer than their terms to wholesalers, or, where they are the same, for the retailers to take full time instead of discounting their bills, and thus to be carried for a corresponding period by the manufacturer. Where the retailer, however, merely buys for immediate resale, while the wholesaler stocks the article, the situation as to terms is reversed. The lighter refined petroleum products, such as gasoline and kerosene, at present generally bear terms of net 30 days in the case of carload shipments, which are made to oil jobbers who have bulk storage and who barrel or can the product, and then ship them to factories, garages, and storekeepers. On the other hand, net cash is largely required for tank wagon deliveries and filling station sales.

In highly seasonal industries where the wholesaler must stock the merchandise, while it is shipped to the retailer only as he requires it, manufacturers' formal terms to retailers may well be shorter also. The wholesaler may receive a season dating, whereas the retailer may receive merely net 30 days, although his payment, according to these terms, will not be due until after the wholesaler's is due. In the glove industry prior to 1915, for example, manufacturers' terms to retailers were largely 6 per cent 10 days, 60 days extra (that is, due in 70 days), whereas their terms to wholesalers were largely 6 per cent 10 days or 5 per cent 30 days, with season datings of May 1 and November 1 on season shipments, but with only 30 days extra between seasons.

In industries where some sales are made directly to retailers by manufacturers, as well as to wholesalers, the further question arises of the relation which manufacturers' terms to retailers bear to wholesalers' terms to retailers. In some cases there may be no difference, but in other cases, especially in industries in which the wholesaler plays only a minor rôle, wholesalers tend to sell the poorer class

of retailers, and to maintain their position in part at least through the fact that they grant longer terms to retailers than manufacturers grant. Thus the small number of jobbers of meat products in the larger centers often grant terms of 2 per cent 10 days, net 60 days as compared with maximum terms extended by packers of 1 per cent 10 days, net 30 days. Similarly, leather jobbers, on the whole, sell to smaller accounts which the tanners would not solicit, and their collections are generally believed to be less prompt, although in some cases at least their quoted terms do not differ from tanners' terms.

In this discussion the orthodox wholesaler has alone been considered, while no attention has been given to the speculative or trading jobber, who is found for example in the non-ferrous metal industries or (to a greatly increased extent during the war period) in the various branches of the textile industry. A jobber of the latter description does not form a regular connecting link between manufacturer and retailer, but competes with, as well as buys from, the manufacturer. Where goods are scarce his aim is to have some available in a sort of open market in the trade, and his business is perhaps most accurately described as a form of price-difference trading. His terms will be considered in the course of the next chapter.

CHAPTER III

LENGTH OF NET TERMS (CONTINUED)

In the preceding chapter two of the factors which influence the length of net terms were considered: (1), the underlying factor, and (2), the marketing system whereby the article is brought from producer to final consumer. In the present chapter the third factor will be considered, namely the general competitive conditions which exist in the industry in question, and the variety of ways in which the influence of this factor manifests itself. After this is done several special aspects of the general question of the length of net terms will be discussed.

GENERAL COMPETITIVE CONDITIONS

Those changes in terms which occur over a period of time in response to changes in general business conditions are not due to general competitive conditions, in the sense in which the expression is here employed. Nor is reference made to changes in the market for a particular article, such as occur, for example, when war time scarcity disappears in the face of new sources of supply opened by the return to peace. Instead, consideration is given rather to the situation which prevails in the industry at a given moment of time, and which exists with respect to the relative economic strength of buyers and sellers in that line. In every industry there is a usual or customary relation which, broadly speaking, remains unchanged over a period of time. This relation between the economic strength of the two parties exerts great influence upon the terms which are employed,

and in particular determines whether or not the length of the terms shall equal the buyer's full marketing period. In some cases, however, it may determine, not what the terms shall be, but rather to what extent the regular or standard terms specified are actually observed. The general competitive conditions which govern the relation are varied, and so also is their influence upon the terms.

Relative Size of Buyer and Seller.—It is necessary first to consider the relative size on the whole of the buyer and the seller in the particular industry in question. A small weak seller tends to receive cash from a large strong buyer. Thus the farmer receives cash for his cattle from the packer who purchases them. On the other hand, however, large buyers who are in a strong position may attempt to force concessions from smaller and weaker sellers, although this may take the form, as will be seen in a later chapter, of paying cash and endeavoring to obtain a correspondingly larger discount in consequence. Turning from large buyers to large sellers, firms which are in a strong position and sell to smaller buyers may do one of two things: either shorten the time (perhaps indirectly by increasing the cash discount) or deliberately follow a policy of carrying the buyer for his entire marketing period. Both policies have been pursued, the use of the former depending upon the position which the seller holds in the market.

Competition or Concentration among Buyers and Sellers.—Closely related in some cases to the question of the relative size of buyers and sellers is the question of the relative degree of competition or concentration among each. Certain of the illustrations which will be given, accordingly, show the influence of size as well as of competition or concentration. As a general rule, the greater the degree of competition among the sellers, the more the concessions which they must make, and vice versa, the greater the degree of concentration, the more they are able to dictate the

terms. A similar situation exists in the case of competition or concentration respectively among the buyers. The influence of the sellers' situation may be illustrated by contrasting sugar refiners' terms with those of coffee roasters and spice grinders. Sugar refining is a highly concentrated industry, and it has been stated that a refinery of the best type requires a capital of perhaps $2,000,000 or $3,000,000.[1] Coffee, tea and spices, on the other hand, are highly competitive lines. Terms of sugar refiners are short —largely 2 per cent 7 days after arrival of shipment or 10 days from date of delivery in the case of local deliveries by truck—while terms on roasted coffee are largely 2 per cent 10 days, net 60 days, and terms on ground spices are largely 1 per cent 10 days, net 30 days.

The influence of concentration among the sellers is also seen when contrasting the situation in the iron and steel industry before and after about 1900. Prior to that time, terms were very irregular, often being made to suit the special needs of particular purchasers. In general they were also long. One authority states that they often ran from 4 to 8 months, but with substantial cash discounts, while another states that quarterly settlements were frequent, although oftentimes an extension bearing interest was granted. Since about 1900 each of the principal classes of product has carried certain regular terms, the general net period being 30 days, with a cash discount on certain items of 1/2 per cent or 1 per cent 10 days. Bolts and nuts afford a more recent illustration from this same general field. This industry is relatively concentrated, and there are not over 25 producers. About 1912 they made an unsuccessful effort to reduce the terms from 2 per cent 10 days, net 60 days, but several years later succeeded. This was in spite of the strong resistance of the hardware job-

[1] Jenks and Clark, *The Trust Problem*, Rev. Ed. (Garden City and New York, 1920), p. 139.

bers, who, however, handle only a small part of the total output, as the major part is sold direct by manufacturers to industrial consumers. Present terms are therefore 1 per cent 10 days, net 30 days.

In industries where strong competition exists between the sellers, terms lack uniformity and in addition may tend to be long and to be poorly observed. In the bituminous coal industry west of Pittsburgh, a buyers' market almost uniformly prevails, while to the east supply and demand are more nearly equal, and there is a corresponding difference in the degree to which business terms may be insisted upon. In the lumber manufacturing industry, it is estimated that there are upward of 40,000 operators. These operators are of several classes, and each class has its distinctive type of terms. Very small operators without yards, who put their product in transit as soon as cut, generally employ terms calling for part cash, such as 10 per cent or more, with order and balance on receipt of notice of shipment. A second class of terms relates to special contracts drawn to cover a considerable period of time, and these vary according to the individual case. A third class are those recommended by the American Lumber Congress and by certain manufacturers' associations, and are in general 2 per cent 10 days or 15 days from date of invoice or 5 days after arrival of car, net 60 days from date of invoice. Deviation from these recommended terms is frequent.

Finally, the larger markets are often influential in forcing more liberal terms. Particularly is this the case in the leading wholesale lines. The effort in 1918 to shorten net wholesale hardware terms in the south to 30 days was hindered by the fact that the large middle western centers, such as Chicago, St. Louis and Louisville, continued on the 60-day basis, although the same cash discount of 2 per cent 10 days was given in both cases. Again, greater standardization of wholesale grocers' terms prevails in the middle

west and west. This is due partly to the fact that whereas in some other markets, such as New York and Chicago, there are manufacturing jobbers who do to a great extent a national and semi-national business, and traders who sell staple goods for cash at cut prices, in addition to houses which do the usual wholesale grocery business, in the sections mentioned houses are more or less generally of the last type. In these sections, moreover, less competition is experienced from exclusive tea and coffee and other specialty jobbers than in the more thickly populated territories. Turning to a totally different industry, a leading hosiery manufacturer states that he lengthens net terms by 30 days in highly competitive markets, such as New York, Chicago and Cleveland.

Cash Outlay, Profits Margin and Capital Position of the Seller.—The conditions under which the article is produced also influence the length of the net terms which manufacturers grant. An important factor is the amount of cash outlay involved for labor and materials in manufacturing the goods. This has been stated as follows by Mr. Ball in the report to which reference was made in the preceding chapter:

> Where the cash outlay constitutes a large part of the selling price, terms will be short—where it represents a small part of the selling price, terms will lengthen. That is why in recent years, with labor and material costs rapidly rising, we have constantly been advised of the necessity for shorter terms. The more nearly goods represent cash the quicker they must be exchanged for cash.

Such conditions are found in industries which are otherwise widely different. Mr. Ball was discussing jewelry terms, but the same point has been made by a leading producer of lead and zinc. A builder of railway cars has described the similar conditions which exist in his industry as follows:

> The building of freight and passenger cars is largely a question of assembling semi-finished and finished materials and, after performing certain work on the same, erecting the finished cars. The cost of the materials to us represents usually about 70 to 80 per cent of the selling price of the car, and as a general rule the margin of profit is small. The car builder has to pay cash for all of this material and for the labor, so unless he can receive prompt payment for the finished cars his margin of profit will soon disappear in interest charges.

It will be noted that in this quotation a second factor is also listed, namely the seller's margin of profit. This is of importance also in connection with the cash discount specified. The applicability of this point to the hardware wholesaler has been indicated as follows:

> The jobber's line extends through many gradations of items, from the basic necessities to the line of luxuries, and the further away they grade from these lines of necessity and nearness to raw material, the greater the profit and the less need for quick turnover.[2]

Related in some ways to these two factors, as well as to the size of the seller, is the question of his capital position. The influence of this factor is seen when contrasting the situation of manufacturers of machine tools with that of manufacturers of mill supplies. In the words of a leading dealer,

> the former are generally made by manufacturers who are well organized and who have sufficient capital. In a great many lines of machine tools, furthermore, their customers are largely dealers who are well established and whose rating is first class. The manufacturer therefore is not obliged to worry about his money and prefers to wait 30 days rather than offer a premium for pre-payment. Mill supplies are made in a great many cases by smaller manufacturers, who possibly are not so well financed as the machine tool manufacturers and the custom of offering a

[2] W. M. Bonham, "Terms of Sale in the Hardware Business," *Bulletin of the National Association of Credit Men*, September, 1919, p. 835.

premium for pre-payment of invoices (and thus shortening terms) is far more common among them than among the machine tool manufacturers.

An interesting corollary of this general question is seen in connection with the decision of a clothing manufacturer, several years ago, to largely increase his output on the same capital, and the consequent necessity of turning his capital much oftener which he was under. This he did by abolishing the season dating which he had formerly granted, thus shortening his terms correspondingly.

Trade-Marked Goods.—The manufacturer of widely advertised and popular brands of goods often occupies a peculiarly strategic position with respect to those to whom he sells. He has created a large demand for his goods, and the buyer must purchase them in order to meet the consumers' demand. Thus the manufacturer is enabled to dictate the terms. In certain lines where the bulk of the products are widely advertised articles, the general terms will reflect this situation, while in industries where widely advertised articles do not predominate, the manufacturer of particular brands is enabled to make his own terms irrespective of those employed in the industry as a whole. Manufacturers who are thus strategically situated tend to shorten their terms, although the extent to which this may be done depends of course upon the strength, or, in technical economic language, the inelasticity, of the demand for their products. It should be borne in mind, however, that such goods also move quickly through the buyer's hands, and his marketing period is thus shortened.

A good illustration of such terms is afforded by the tobacco industry. "Probably 99 per cent of all tobacco products other than cigars, if not fully 100 per cent," states a leading authority, "are sold under well-established and popular trade marks, while in cigars the case is quite different." There are a number of well-established brands of

cigars which are sold upon the same standard terms as are the other tobacco products, namely 2 per cent 10 days to 30 days. The remainder of the cigar business is conducted in considerable part by small manufacturers. Sharp competition prevails and terms, which have quite a bearing in making sales, are longer and far less standardized. Manufacturers' terms to jobbers vary from net 10 days to net 30 days, with a cash discount of from 1 to 2 per cent in certain cases, while jobbers' terms to retailers are generally longer. Standardization of terms on the manufactured products tends to be aided by the relative degree of concentration existing in the industry.

Regularity of Relationship between Buyer and Seller. —Another important aspect in connection with the general competitive conditions existing in any given industry is the degree of regularity found in the relationship between buyers and sellers. Where there is a regular and continuing relationship, such as between wholesaler and retailer, a basis is afforded for the extension of time, with the buyer's marketing period as an upper limit. On the other hand, when each purchase or sale is separate and isolated, no oversight of buyers' operations by the seller exists. This is especially the case in what may be termed open-market trading. Moreover, in this case either buyer or seller—perhaps both—in any transaction will be a speculative or trading jobber of the kind described at the close of the previous chapter. Such a jobber forms no regular connecting link between manufacturer and retailer, and he has no regular marketing period. Furthermore, he himself is not interested in the business of those who purchase from him, and does not perform the regular wholesaler's credit function. His terms therefore tend to be short, although they often are adapted largely to the needs of the individual case. In consequence, too, they often vary considerably.

Jobbers of this kind dealing in men's wear woolens and

worsteds frequently sell on terms of net 30 days, although spot cash or net 10 days, net 60 days, and net 4 months are also given. Regular jobbers' terms are 7 per cent 10 days, 6 per cent 30 days, 5 per cent 60 days, net 4 months, with extra dating of about 60 days. Again, in copper and zinc a considerable speculative jobbing interest exists, and is sufficient to affect seriously the general terms employed by the producers. Strictly speaking, for these metals there are no "regular" terms. Sales in both cases, woolens and metals, are largely spot, as distinguished from contract sales. Spot sales of anthracite are often made for cash, and a slightly lesser price, such as 5 cents per ton, is quoted, although these sales usually bear the same terms as contract sales, namely the 15th proximo. While this is the situation in the wholesale market, it has been said that credit is often extended by wholesalers to retailers, and that practical and exclusive connections are made when the retailer is carried in this way.[3]

The open markets in each of these industries are unorganized. The general principle, however, applies also to those markets which are organized, and which are found especially in connection with agricultural products. While such markets differ in degree of organization, they usually have rules governing the trading, which generally cover a variety of other matters as well as incidentally the question of terms. In such markets the absence of a regular relation between buyer and seller and perhaps also of a regular marketing period for the buyer is even more complete than in the case of the unorganized markets. Terms are therefore cash. The packer or the feeder who purchases cattle at the stockyards pays cash to the commission firm to whom the stockman has forwarded his cattle. Thus, too, the southern tobacco grower receives cash from the leaf sales

[3] Report of the Federal Trade Commission on Anthracite and Bituminous Coal, June 20, 1917.

warehouseman who has auctioned off his tobacco, and receives it on the day the tobacco is sold, the warehouseman in most cases collecting the following day from the buyer. Finally, a similar situation exists in the case of the grain exchanges, and the rules of the Chicago Board of Trade, for example, call for cash on day of delivery.

Business Character of Each.—Lastly, the business character of both buyer and seller must be considered. By this is meant the extent to which business customs are observed, irrespective of whether the deviation is due to the absence of a business habit of thought, as on the part of the housewife, or to an overdeveloped desire for trading in the popular sense of the term, as is often the case with small weak firms. This factor has an effect in a variety of directions. It affects the degree of standardization of terms in the industry, as well as the actual length of the terms specified and extent to which they are observed. It is closely related to the degree of competition existing, which was discussed above, and its influence is seen in some of the illustrations given in that connection. The consumer affords the most conspicuous case where business character is absent in ordinary operations, while in the business field, there may be cited the trading jobber who arose in the textile industry during the war and the small manufacturer in the garment trades. In industries where this is the case, the standard of business morality is generally low.

General Illustrations.—In the first part of the preceding chapter it was assumed that the terms generally equal the buyer's marketing period, and that the seller thus carries the buyer for that length of time. In the second part it was seen that where merchandise passes through two hands before reaching the buyer, either may carry it, or both may coöperate in the carrying process. The extent to which each participates is determined by the general competitive

conditions existing, which have been discussed in the present chapter. These conditions in certain cases may make the length of the terms employed in a given industry materially shorter than the buyer's marketing period. In other words, in addition to the class of terms where the seller carries the buyer and thus the article in question, there is another class in which the buyer instead carries the article, due to the general competitive conditions which exist, and a third in which the task of carrying is divided between buyer and seller. The buyer's marketing period, therefore, frequently affords an upper limit to the length of the terms, instead of serving as an absolute regulator of them. Two outstanding examples of cases where the seller does not do the entire carrying are afforded by terms on agricultural produce, and terms on sales by manufacturers to wholesalers. In both, several of the forces considered under the head of general competitive conditions are at work, and together operate to influence the terms employed.

As already indicated, the farmer generally receives cash for his produce. This is due chiefly to his lack of economic strength as compared with the buyer of his products, both as to size and capital position, and to the fact that he may be said to have already "carried" the product while making the crop. Moreover, no regular relationship exists between him and the buyer, so that this feature, which is of great importance where credit is granted, is absent. Finally, farming, as it is at present conducted, may on the whole be said to have little business character. In consequence, therefore, the buyer's marketing period does not operate as a regulator of terms in the agricultural field, but is confined solely to the industrial and commercial fields.

The regular wholesaler's credit function was indicated in the preceding chapter. As was pointed out there, the

position which he occupies in the marketing process practically carries this credit function with it, and the terms which he receives from the manufacturer are further influenced by the disproportion in size and capital position which frequently exists between him and the manufacturer. The same factor operates in a somewhat different manner in the case of dealers or producers of articles, whether absolutely raw or merely semi-finished, which serve as raw material for manufacturers. As has already been seen, such products are generally sold for cash, since in last analysis they may be regarded as perishable, and in certain cases, at least, are destined for current as contrasted with seasonal use. In addition, the purchasing manufacturer usually is in a strong financial position—stronger, perhaps, than that of the seller. The seller of these products, whether dealer or manufacturer, therefore generally has no regular credit function, and the dealer partakes largely of the nature of a trader, operating in the open market in the industry in question.

Both packer and country hides are generally sold both by packers and dealers on terms of sight draft against bill of lading, although in a few cases longer terms are granted, but the price is correspondingly increased. These terms, however, may be due to some extent to the position occupied by the large packers. Similarly, tanners' terms to shoe manufacturers are short, as the latter usually are in a strong financial position. Regular terms on sole leather are 4 per cent 10 days, 3 per cent 30 days, 2 per cent 60 days, net 90 days, and on upper leather are 5 per cent 10 days, 4 per cent 30 days. In both cases, monthly settlement is frequent.

On the other hand, the seller may extend credit in cases where it is needed by the purchasing manufacturer. A good illustration is afforded by the leaf tobacco industry. Dealers' terms are largely adapted to the needs of the indi-

vidual purchaser. Strong manufacturers may pay weekly as a statement is rendered of purchases made for them by the dealer, while the terms to them will be short in the event of sales from the dealer's stock. But smaller and weaker manufacturers, assuming that they are in good standing, will receive additional time. Four and 6 months are often granted, in many cases with note or trade acceptance, or a statement may even be rendered at the close of the season for the season's purchases, and the dealer may charge interest for the time taken.

Mutual Interrelation of Terms.—The terms on any one product are not determined entirely independent of the terms on other products. On the contrary, these are also taken into account, and when two products are related, the terms on one may even exercise a determining influence upon the terms which the other shall bear. The influence manifests itself in a variety of ways.

1. A manufacturer or dealer who handles two separate products frequently applies the same terms to both. Paints and varnishes are often produced by the same manufacturer, and they are distributed largely through the same jobbers, while a close relation exists between their use. Especially has this been the case since about 5 years ago, when paint manufacturers added varnish plants, while conversely many varnish manufacturers commenced to manufacture paint. Varnish terms, therefore, tend to conform to those on paint, and the regular terms on both are now 2 per cent 10 days, net 60 days, the varnish terms having been changed about 5 years ago from 5 per cent 30 days, net 4 months. A similar explanation applies to terms in the optical industry, where wholesalers generally continue to quote terms of 6 per cent 10 days e. o. m. (due 10th of following month). This is said to be "a relic of the days when the optical business was closely affiliated with the jewelry trade," although the two lines are now

quite distinct and affiliated only in rare cases. Other illustrations are afforded by the application of manufacturers' terms on carpets and rugs to linoleum also, as well as by the use of the regular sole leather terms of 5 per cent 10 days, 4 per cent 30 days on purchases by fancy goods manufacturers from tanners producing chiefly sole leather, in place of the customary fancy leather terms of 2 per cent 10 days, net 30 days or 2 per cent 30 days.

2. Where several articles are purchased by the buyer, the major product fixes the terms, and the minor products are governed accordingly. This is the case, for example, with woolens and tailors' trimmings. In this instance, furthermore, as in several of the preceding illustrations, the buyer's marketing period for the two articles is similar, and both are handled in the same manner.

3. During recent years wholesalers in leading lines have undertaken in an increasing degree to handle also other more or less related products, and this has created certain problems as to terms. Hardware wholesalers now sell automobile accessories on the regular hardware terms of 2 per cent 10 days, net 60 days, in place of the terms granted by regular accessory dealers of 2 per cent 10 days, net 30 days. This is done by hardware wholesalers in the interest of uniform terms on all the products they handle. It is not possible in all cases, however, to achieve this object, especially where the terms would be shortened or discounts decreased, or where the bulk of the product is handled through other channels. Moreover, in adding related lines, the wholesaler comes to handle certain goods which are distributed only to a small extent through his own trade. He therefore must reach out to sell these items to retailers other than those to whom he has previously catered regularly. The wholesale druggist has faced these problems and has devoted much attention to them. For example,

jobbers of stationery and school supplies frequently carry goods which may be classed as druggists' sundries, so that the wholesale druggist has undertaken to induce the stationery wholesaler to employ the regular drug terms of 1 per cent 10 days, net 30 days. These efforts have met with some success, and in 1916 it was stated that many leading stationery houses had reduced their cash discount from 5 or 6 per cent to 2 per cent, net terms at that time being 60 days. The success, however, is by no means complete, and the regular stationery terms at present are still different from the drug terms.

4. Finally the interrelation of terms may be based upon geographic considerations. The Montana and North Dakota Wholesale Grocers' Associations have always been governed in preparing their recommended terms by the terms of the Minnesota Wholesale Grocers' Association, due to the fact that the large Minneapolis houses sell throughout their territory, and to the fact that there are no large independent markets in these two states. On the other hand, however, the Minnesota Wholesale Grocers' Association has always been largely influenced by the terms employed in the territory to the east of it.

Terms of the Individual House.—In the above discussion attention has been directed chiefly to the regular terms which exist in the various industries. The terms of the individual house in any particular case may differ from these terms to a greater or lesser extent. Whether the seller as a general rule deviates from these terms, depends upon the particular situation in which he finds himself. The factors to be considered are similar to those discussed under the head of general competitive conditions. It has already been noted that a manufacturer of well-known trade-marked goods may in large measure dictate his own terms, while, on the other hand, a small weak seller whose capital is insufficient to enable him to extend the regular

terms, may offer a special concession in the way of a discount in order to insure prompt payment.

Differentiation may also be made by the seller in the case of individual buyers. Additional time may be granted a small buyer worthy of credit, although the regular terms call for shorter time. On the other hand, the poor credit risk may be required to pay before he receives the merchandise. This may be done either by requiring cash with order, or when he receives the merchandise, through the use of C.O.D. or sight draft terms. In lines where what may be designated as "graded terms" are employed, such as 8 per cent 10 days, 7 per cent 30 days, 6 per cent 60 days (the recommended terms of the New York City Garment Conference Council of Wholesalers and Retailers), a poorer credit risk may be quoted only the first two terms and thus receive not longer than 30 days, while a better risk may have the amount of his purchases on the regular terms limited. A woolen manufacturer, for example, may thus fix a line of credit, indicating the amount which the buyer may purchase on the regular terms of 7 per cent 4 months, and require him to pay cash, through 10 per cent 10 day terms, for any additional purchases he may wish to make.

How the Net Period is Covered.—The usual method of selling goods is on open account. That is to say, the seller keeps the record, and sends the buyer a statement of amounts due. In technical economic language, the credit is unembodied. But certain exceptions are found where credit becomes embodied. These may conveniently be grouped into three classes.

1. In certain staple lines a sight or arrival draft is regularly employed. Carload shipments of flour are usually made (except in Texas and intermountain territory) against arrival draft, with order bill of lading attached, while canners generally sell at present on terms of 2 per cent for payment of sight draft, 1 1/2 per cent for payment

on arrival or within 3 days thereafter or within 10 days from date of invoice, and net terms of 60 days. Similarly producers of copper, lead and zinc often use a sight or arrival draft or 10, 20, or 30-day draft, while manufacturers of automobiles generally use a sight draft with bill of lading attached in the case of cars which they ship to dealers.

Digressing for a moment, it may be observed here that cash in effect is required where a sight or arrival draft is employed, the terms in the latter case covering the period required for transportation of the merchandise from seller to buyer. In some industries, such as copper, lead and zinc, an effort has been definitely made by certain sellers to adjust the terms to the time required for delivery. Thus 10 days from date of shipment has been given if made from an eastern refinery and 30 days if made from a western refinery. Terms of this kind at the same time avoid disputes as to what constitutes time of arrival, which are frequent where terms calling for payment upon arrival are employed. The purchaser, however, often favors arrival terms, while the seller opposes them. An example of this is seen in the lumber industry, where wholesalers have strongly opposed the efforts of the retailers' associations, especially those in the metropolitan district, to establish terms based upon date of arrival.

2. Exception is made in the case of lines where terms are rather long and buyers in general are small and of poorer standing. In such cases a promissory note is used. This is often done in the jewelry industry in cases where season settlements or net terms of 4 months are permitted; in the tobacco industry on sales of leaf by dealers to smaller manufacturers on extended time; and in the case of the wholesale lumber industry. The recommended terms of the National Wholesale Lumber Dealers' Association provide for the use of either trade acceptance or note where

the net terms of 60 days from date of invoice are used. Acceptances are also frequent in the tobacco industry in place of notes, and in both these industries have been used for some years past.

3. Acceptances have been largely employed in recent years in several industries in connection with season datings. While rubber manufacturers regularly sell automobile tires on open account for monthly payment, on winter shipments bearing a specified spring due date, such as part April 10, part May 10, and the remainder June 10, the trade acceptance is generally employed. Again, the recommended terms of the Wall Paper Manufacturers' Association provide for the use of a trade acceptance due 90 days from date of invoice, in the event that cash is not paid by the 10th proximo. Finally, in the agricultural implement industry, while manufacturers formerly took the note of the farmer, more recently, with the change from a commission to a sale basis, they have taken instead the note or acceptance of the dealer.

4. Exception is made in the case of terms employed on fixed capital goods sold to buyers who are unable to pay cash. Instances of such terms were given in the previous chapter, where it was seen that the general practice is to employ notes, as well as either to retain title to the machinery or other goods or to use a chattel mortgage.

CHAPTER IV

DATINGS

It is difficult to give a precise definition of datings, for the reason that in last analysis they are of several kinds. Their one point of similarity is the fact that they all serve to defer the due date of the bill. They provide for an additional period over and above that which would otherwise be granted by the regular terms, usually by indicating, as Mr. William A. Prendergast says, that "the term of the credit does not begin to date until the expiration of the term of the dating."[1] But the dating may be expressed in several ways; it may be for a greater or lesser period of time; and it may be given for one of several reasons. In consequence there are several different types of datings. Specifically, these are (1) season datings; (2) indirect datings; (3) datings on shipments to distant territories; and (4) competitive or extra datings.

Season Datings.—The season dating provides a given date from which commences the term of the credit. Thus wholesalers of dry goods generally grant on season purchases datings of April 1 or May 1 in the spring, and October 1 or November 1 in the fall. From these dates terms of 2 per cent 10 days commence, making such bills due April 10 or May 10 in the spring, and October 10 or November 10 in the fall. By season purchases are meant purchases of goods to provide the stock which is to be worked off by the buyer during the selling season which

[1] *Credit and Its Uses* (New York, 1906), p. 114.

follows. As has been seen in Chapter II, this means not only that the goods are both purchased and manufactured prior to the buyer's active selling season, but also that they are actually delivered in advance of the season, and that the dealer then keeps them in stock until the season opens. The dry goods terms indicated above, therefore, generally apply only on shipments made prior to 2 months before the time of dating (February 1 in the case of an April 1 dating), after which the regular terms apply. Thus, also, because cloak and suit manufacturers in the Cleveland market receive heavy orders in advance of the season, while in New York, goods are ordered rather for delivery as needed, no datings are given in New York, while many houses in Cleveland give season datings of March 1 and September 1.

By means of the dating, account is taken of the buyer's marketing period, and due recognition is given in highly seasonal industries to the periods of the year when his sales are made. The dating, therefore, represents an application of the principle of the buyer's marketing period as a basis for terms to the case of seasonal industries. This refers only to those industries where datings apply to the stock order, and not to industries where the datings apply only to sample goods, such as on sales of woolens and worsteds by manufacturers. Where a dating is used, the manufacturer is therefore also relieved of the necessity of taking the risk of producing goods which he cannot sell; he shifts the burden of gauging market demand to the buyer instead.

Advantages to the Seller.—There are other advantages to the seller through producing the goods in advance of the season, shipping them out and granting a dating, instead of producing them as, or retaining them until, the buyer needs them. These advantages have been well stated in the following resolution of the Paint and Varnish Credit Club in 1918:

Whereas, for a number of years the paint and varnish manufacturers have offered spring datings for orders placed in the fall for shipment during fall and winter months, and

Whereas, this privilege was offered for two reasons:

First. To keep the plants running and the employees on full time during the winter months.

Second. To avoid congestion in the plants during the busy spring months, and

Whereas, This very liberal attitude of the manufacturers has resulted in the abuse of the privilege through the dealers placing a great many small orders, evidently for immediate consumption, with the expectancy of spring datings; therefore be it

Resolved, That this practice be stopped and that where it has been customary to grant spring datings, the manufacturers limit the privilege to one complete stock order, to be shipped at the option of the manufacturer after November 1.

In certain seasonal industries it is absolutely necessary that the goods be produced in advance of the season, but in others, the manufacturer is given the option of lengthening the period within which he actively produces, and thus reducing his peak load. On the other hand, whether he shall ship the goods out and grant a dating or shall retain them himself until needed by the buyer, is entirely optional with him. He may either ship them out at once or store them, as he sees fit. Thus, orders in the boot and shoe industry are taken for shipment on a given date, but the seller retains the privilege of prior shipment. If he ships them out, he bills the goods on the date called for in the order, in place of the date of shipment, and they carry the usual terms, without dating. In reaching a decision as to which of these two methods to use, a manufacturer must choose between the necessity of providing the additional warehouse space required if he himself stocks the goods, and the danger involved in losing control over them if he ships them out. The extent of the danger depends largely upon the situation of the buyer with respect to the

factors discussed in the preceding chapter under the head of general competitive conditions. Shipping the goods out at once and granting a dating, also has the advantage of placing them in the dealer's hands at the earliest moment, so that he is able to meet at once any demands which may arise. In some cases it may result in dealers placing orders in advance of the season, instead of postponing buying until the goods are actually needed, and so may enable the manufacturer better to judge the demand.

Illustrations.—Season datings are found in many lines. There will be given here merely some examples which illustrate, on the one hand, how closely terms may be adjusted to the buyer's marketing period, and on the other hand, the relation which datings bear to the system whereby the article is marketed. The terms recommended by the National Implement and Vehicle Association undoubtedly represent the most complex structure of terms in existence. Distinction is made between each of the principal classes of agricultural implements, and also between the different sections of the country. The country is divided into 4 zones—the central (which provides the standard), and the northern, southern and Texas. The time granted differs in the various zones, both according to the use of the implement in question in that particular zone and the time when crop returns are received. One implement may thus be classed with a certain group in the central zone, while in the southern zone it is classed with another group and bears a different dating, according to the special conditions in that zone. Another illustration is afforded by the datings employed by certain manufacturers in the garment industries. Some manufacturers of men's clothing grant a dating of November 1 on suits and a dating of December 1 on overcoats, while others specify May 1 on spring goods and June 1 on distinctly summer goods. Certain manufacturers of women's cloaks and suits grant a

dating one month later on cloaks than the usual datings of March 1 and September 1, which they give on suits.

The relation which datings bear to the marketing system is seen especially in considering changes in terms over a series of years. As a result of the shortening of manufacturers' terms on agricultural implements in recent years (as well as of a fear of possible price declines), dealers are now said not to place as large initial stock orders as formerly, and direct shipments from factories to dealers have decreased, so that manufacturers are required to carry larger stocks at distributing points. A somewhat similar experience is reported by sole leather tanners. It has been stated that "about 10 years ago, terms were 5 per cent 10 days, 4 per cent 60 days, with almost any dating a shrewd buyer would exact under abnormal market conditions. As the shoe manufacturing trade developed, the tanner became more and more both manufacturer and banker, and with increasing cost of hides, bark, etc., could no longer stand the strain." Terms were therefore finally changed to 4 per cent 10 days, 3 per cent 30 days, 2 per cent 60 days, net 90 days, generally with either 20 days extra, or with monthly settlement. Fixed buying periods are said by one tanner to have been largely obliterated since this change. Finally, several years ago a southern wholesaler of dry goods stated that he believed a change in marketing methods was occurring. He felt that, as a result of the improved roads which were being built, salesmen using automobiles would be able to call on their trade at least once every 60 days, and therefore it would be unnecessary for retailers to buy season bills in advance, as had been the custom. As a result, the retailers would not need long time, and terms would become 2 per cent 10 days, net 60 days from date of shipment.

One-Season Industries.—A number of industries have two seasons a year—spring and fall—but a number have

only one season, either fall or winter, or spring or summer, depending upon the particular article in question. The general principles which govern the fixing of the dating in one-season industries are substantially similar to those found in the case of two-season industries. Auto tires have already been cited. A spring dating is given in the case of winter shipments of them, while during the season the regular terms are 5 per cent 10th proximo. The dating usually applies upon shipments from November 1, December 1 or January 1 to March 1 or April 1, and several forms of dating are employed, April 1 (and thus due date of May 10) being most common.

The wall paper industry affords another good example of a one-season industry. Invoices of wall paper manufacturers rendered between September 1 and February 1 carry the latter date, except in the case of invoices covering goods shipped on duplicate orders for fall and winter requirements of goods of previous years' manufacture, which carry no advance dating. The object of the February 1 dating is said to be to induce dealers to accept goods as manufactured, and before they are actually required, so that the necessity of manufacturers maintaining extensive warehouse space is obviated. A somewhat similar situation existed in the straw-braid hat industry. Before the war, manufacturers booked the majority of orders from the early part of July to the early part of October for the entire season's business, running from July to July. Shipments were made at the discretion of the purchaser, and for many years terms were 7 per cent 10 days May 1 to the jobber and 6 per cent 10 days, 5 per cent 30 days June 1 to the retailer. The bulk of shipments were made during March and April, necessitating storage by the manufacturer until that time. In 1917, the three larger Baltimore manufacturers found great difficulty in making their shipments at the customary time, due to the prevailing

transportation conditions. In consequence, for the year commencing July, 1918, manufacturers with few exceptions decided to revise their methods, and to require that purchasers take the goods as they came from the factory. In order to encourage early purchase, shipment and payment, terms were changed to 10 per cent for payment on or before October 10, 1918, and a graded set of discounts, of the kind described more fully in the following chapter, was introduced. The discount decreased 1 per cent per month for later payment, thus making the lowest discount 2 per cent for payment after May 10 and before June 10.

Frequency of Purchases.—The principles just discussed are applicable also in the case of non-seasonal industries. The purchaser may stock up the goods, and thus place large orders at less frequent intervals, instead of placing a larger number of small orders as he needs the goods. At times the seller will consciously encourage this. One manufacturer of tissue paper, for example, desires to sell carload lots to western buyers in order to save freight, but purchasers in that section cannot sell the article as readily as in the East, so that it is necessary to extend them 30 days longer, in view of their slower turnover. In certain cases, too, a buyer in an industry where purchases are customarily made for current use only may instead stock the article, and receive additional time. Thus a note is taken, in place of the regular monthly terms, for foundry or domestic coke put in stock for future use.

The entire question is related to the problem of the nature of the article, in particular whether it is rather for seasonal or for current use, as was mentioned in Chapter II. Some foodstuffs, for example, which are practically non-perishable, are bought, as a rule, in larger quantities to cover the requirements of a longer period, and therefore carry longer terms than do perishable articles. The usual terms on fresh meats call for weekly payment, while the terms

on canned fruits and vegetables call for 2 per cent for payment of sight draft, 1 1/2 per cent for payment on arrival or within 3 days thereafter or within 10 days from date of invoice, and net 60 days. But purchasing by the retailer in larger quantities and at less frequent intervals is by no means universally favored. A southern wholesale dry goods house has said that "we are encouraging frequent orders from our trade either weekly or at least semimonthly, as we find our trade is more apt to keep their accounts in a satisfactory condition in this way than when they buy 2 or 3 bills a year, which necessitates a larger payment at one time." Similarly, a middle western wholesale hardware house ascribes the efforts on the part of the wholesaler in that line to establish uniform terms and "what appears to be largely 2 per cent cash discount within 10 days" to a desire "to educate the retail trade in the necessity of discounting their bills and making a quick turnover of their business; in other words, purchasing in smaller quantities, paying promptly, etc."

Indirect Datings.—Looked at in another way, in cases where the seller himself retains a previously manufactured article until the buyer needs it, and then ships it out, the buyer may be said indirectly to receive a dating. Buyers have recognized this, and in certain cases have attempted to postpone the date of shipment in order to lengthen the terms. The smaller manufacturers of knit underwear are said to buy yarns through the smaller commission houses, and either to secure longer terms or to "string out" shipments which, it is commented, "amounts to the same thing." Again, in the millinery braid industry, buyers adjusted the date of shipment so as to nullify an attempted change in terms. When manufacturers advised purchasers on March 1, 1920, that the former season datings of April 1 and October 1 would be eliminated, the customers gave instructions to ship goods on January

1, making due dates and discounts 8 per cent February 10 or 6 per cent April 10.

On the other hand, sellers happening to be in a strategic position have attempted to shorten terms by specifying the date of shipment. Wholesale dry goods houses during the latter part of the war period definitely limited the time of shipment. Merchandise was scarce at that time and they were able to force acceptance of early deliveries by buyers. One wholesaler included in the 1918 survey of members' terms by the National Wholesale Dry Goods Association stated that "we have been accepting spring business for future shipment to be shipped not more than 30 days from date that the order is taken," and his customary terms of 2 per cent 10 days, 1 per cent 30 days, net 60 days then applied. Another wholesaler stated that he applied the April 1 spring dating to advance orders where the customer for any reason wanted shipments held until, say, March 1, as well as to shipments made at the usual time in January.

Shipments to Distant Territories.—In certain cases, additional time will be given in the case of shipments to distant territories. This is especially true of the Pacific Coast, where the additional time generally amounts to about 30 days, as well as to some extent of the South. The time may be granted either by specifying a definite date, similar to a season dating, by granting 30 days extra, by increasing the length of the regular net terms, or by basing the terms upon date of arrival instead of date of shipment.[2] Many houses grant the additional time only for taking the discount, and the net period is measured from the date of shipment.[3] Manufacturers of cutlery grant 60 days on Pacific Coast shipments in place of the regular 30 days, and some producers of canned soups specify 1 1/2 or 2

[2] Arrival terms are at times designed as R.O.G. (receipt of goods) terms.

[3] Ettinger & Golieb, *Credits and Collections* (New York, 1917), p. 76.

per cent for remittance within 3 days after arrival, net 30 days. By these means, cognizance is taken of the time required for the transportation of the goods, and the purchaser receives time sufficient to cover this period in addition to the regular net terms (based upon his marketing period) which prevail in other sections.

Competitive or Extra Datings.—The competitive or extra dating specifies a certain period which is to be granted in addition to that which would otherwise be granted by the regular terms. Manufacturers of men's clothing, for example, frequently grant 7 per cent 10 days, 60 days extra, making the bill due in 70 days. In fact, where a dating of this kind is granted, the due date so specified represents the regular terms, and the dating has become an integral part of them. The dating, however, is frequently expressed only in the case of the discount period, while the net terms are quoted in the regular manner. Thus the regular terms of wholesalers of dry goods are 2 per cent 10 days, 60 days extra, with net terms in many cases of 90 days or 4 months, although frequently no terms beyond the regular 70-day period are formally quoted.

Prendergast[4] traces the origin of datings of this description to the discontinuance of long time, such as 4, 6 and 8 months. It is undoubtedly true that it is in industries where the time given is fairly long, that such datings are found, and the datings themselves are often not short. There are no datings of 10 days extra; the shortest appear to be 20 days extra, which are employed by sole leather tanners in order to permit monthly payment, and most call for 60 days extra, a lesser number specifying 30 days extra. Moreover, such datings have appeared in certain lines where there has been a movement to shorten terms and abolish season datings. This was the case, for example, with manufacturers of carpets and rugs, who prior to

[4] P. 113.

about 1916 generally had terms of 4 per cent 10 days, with March 1 and September 1 season datings, whereas they now mostly have terms of 4 per cent 10 days, 60 days extra.

But the general character of the industries in which these datings are found must not be neglected. In many of them the forces considered in the preceding chapter under the head of general competitive conditions bulk large in deciding what terms shall be employed. The datings which are given are the result, in part at least, of the operation of these forces, and the extra time granted reflects the general competitive conditions which prevail.

On the other hand, to some extent there lies back of these datings an effort to adapt the time to the buyer's marketing period. Looked at from the buyer's side, this is an important factor, while from the seller's point of view, the general competitive conditions predominate. There is by no means a sharp difference in use between the season dating and the competitive or extra dating, and both may be employed side by side in certain industries, one serving as a counterpart of the other. Moreover, in the efforts to shorten terms to which reference has just been made, the adoption of a shorter extra dating in place of the former season dating, instead of eliminating entirely any dating whatsoever, in itself may be considered a recognition to some extent of the need for adapting the time to the length of the buyer's marketing period. In some other industries where terms have been shortened, such as the manufacture of the finer men's shirts, the former extra dating remains on season orders and acts in place of a season dating in supplying the additional time required by the buyer on such purchases.

Datings not Rigid.—Datings have been considered above as determined by the natural forces prevalent in the industry in question, especially the buyer's marketing period and the general competitive conditions. But this

by no means implies that they are absolutely rigid and fixed. Rather are they flexible and subject to considerable change. It has just been noted that in recent years they have been either decreased or in extreme cases entirely abolished in industries where sellers have found themselves in a strategic situation. There has also been a marked change in the seasonal character of certain industries, and a corresponding effect upon datings. The fur industry formerly had only one season, but in recent years the fashion for summer furs has given the industry two seasons, and a dating of July 1 is now found in addition to the December 1 or January 1 dating on regular goods. During the past few years there has been an active and well defined movement on foot, sponsored by the Millinery Chamber of Commerce of the United States, looking towards the establishment of a twelve months' business for all branches of the millinery industry, with a resultant sale of seasonable millinery for each season of the year. This should have an effect upon the regular datings of April 1 and October 1, which are at present found.

Grouping of Transactions.—Allied to datings, and in a sense itself a form of dating, is the practice of grouping transactions and providing a single settlement date at regular intervals, instead of a succession of such dates, one for each individual transaction. The single settlement date is convenient for both buyer and seller. Particularly is this true in the case of active accounts, and so distinction is often made between them and inactive accounts, which bear the regular terms. Similarly, exception is often made in the case, for example, of sales of foodstuffs to government institutions and to large corporations, including railroad, lumber and coal companies which operate commissaries. In the latter case, bills are frequently rendered to the head office of the corporation, instead of to the office receiving the purchases. The single

settlement date is often named in connection with the cash discount period. Monthly settlement of active accounts is frequent, instead of settlement within 10 days, as in the case of inactive accounts with few transactions. Where this is done, 10th proximo or 10 days e. o. m. (end of month) will be specified, payment in both cases then being required by the 10th of the following month. The designation "proximo" is generally used in industries such as wholesale groceries and auto tires, while the designation "e. o. m." is generally used in the various branches of the textile industry. The 10th is the most frequent date, although the 15th, 20th and 25th are also found. On the whole, a growing tendency towards the use of proximo terms appears to be reported in the leading wholesale lines.

Grouping of transactions on less than a monthly basis is often found. Semi-monthly terms are used in certain cases on sales by wholesalers to retailers, such as in some sections in the confectionery industry. Similarly, fresh meats are usually sold on a weekly basis, and payment is required by a given day of the following week. In both these cases collections are often made by salesmen when they call upon the trade. This provides a ready collection medium for the seller, while at the same time the frequency of the salesman's visits, and thus of the buyer's purchasing, reflects the latter's rate of turnover and therefore corresponds to his marketing period. Similarly, practically all dealers in manufactured tobacco products discount their bills, because, except in the rural districts, the jobber usually calls on the retailer not less than once a week and often twice, and the latter thus buys his supplies from week to week. In fact, no cash discount is granted the small trade, but they are quoted instead prices on a net cash basis, with the discount already deducted.

CHAPTER V

CASH DISCOUNTS

In the preceding chapters it was first considered that the buyer generally receives terms equal in length to his own marketing period. Subsequently it was seen that this period instead forms rather an upper limit, below which the terms may be swayed somewhat by the general competitive conditions prevailing in the industry in question. But in every industry certain buyers are in a peculiarly favorable position. They are able to pay cash at once, while many of their fellow competitors find it necessary to take time. They may either have the funds themselves, or else may obtain them from their banks, but in any event they are able to pay the seller cash. In fact, cash payment or discounting of bills is a prime test of credit standing in the United States to-day. In this way, the buyers in a given industry naturally divide themselves into two great classes, one of superior and one of lesser credit standing. This is true of most industries, but in some, notably the leading wholesale lines, it is the usual practice for almost the entire body of buyers to discount their bills. Such industries therefore must be distinguished from the general rank and file.

Cash Discounts and Trade Discounts.—Discounts are of two kinds. Goods, for example, may carry a trade discount of 10 per cent, as well as a cash discount of 2 per cent for payment within 10 days instead of 60 days. On the surface, the difference between the two classes of discounts appears to be largely one of size, but in last analysis it goes somewhat deeper. The cash discount represents a

deduction from the face amount of the bill of goods which is to be paid when the net terms are taken. The net terms supply a standard, and the cash discount is granted in view of payment at an earlier specified date. The trade discount, on the other hand, is granted irrespective of the time of payment, and represents a price adjustment, granted either to all buyers or to certain specially selected ones. It is immaterial whether goods are quoted at $90, or at $100 less a trade discount of 10 per cent. There may be several such trade discounts, each deducted successively from the face of the bill after the previous one has been deducted, but this is never the case with the cash discount. With the latter, one discount alone is quoted for payment at a certain time. The trade discount, even where only a single one is given, is generally larger than the cash discount.

The distinction should not be confused by the fact that at times trade discounts have become stereotyped, and are in general use in a given industry, so that they have been incorporated into and become an integral part of the regular structure of terms in that industry. This is particularly the case with graded discounts, which will be discussed later. Manufacturers sell woolens and worsteds largely upon terms of 10 per cent 30 days, 8 per cent 60 days or 90 days and 7 per cent 4 months. The terms of 7 per cent 4 months correspond to the net terms usually found in other industries and actually represent a trade discount. Each of the other discounts contains two elements—a trade discount of 7 per cent and a cash discount equal to the difference between the quoted discount and the trade discount. Neither should the distinction be confused by the fact that in a few industries a trade discount may be incorporated into the quoted discount if the purchaser so desires. Thus the New York City Garment Conference Council of Wholesalers and Retailers in July, 1917, recommended terms of 8 per cent 10 days, 7 per cent 30 days,

6 per cent 60 days or so-called "net" terms of 2 per cent 10 days, 1 per cent 30 days, net 60 days, the price being advanced correspondingly in the former case to compensate for the difference in the discount.

Where the quoted discount actually includes a trade discount, the trade discount is given to all purchasers alike. In such cases, the seller merely adds it to his other expenses of production in order to obtain the price he quotes the buyer. The latter then in turn deducts it in order to arrive at the actual cost of the goods to him. It, therefore, represents merely a cumbersome price adjustment, and does not serve its true economic purpose. This is to keep commodity distribution in certain regular channels. The manufacturer generally grants the wholesaler a larger trade discount than he gives the retailer, or else grants the retailer none at all. This serves to provide the wholesaler with a minimum margin of profit, represented by the difference between the trade discount he receives and that which the retailer receives. The wholesaler is accordingly protected, and his place in the process of distributing the article in question is recognized. This is the actual function of the trade discount. It has no direct relation whatsoever to credit matters.

Nature of the Cash Discount.—Some authorities have attempted a more rigid definition of the cash discount. They hold that fundamentally it is a premium for prompt payment, and not a discount in lieu of time, instead of recognizing both elements, as we have done. In fact, the National Wholesale Dry Goods Association for several years termed it a cash premium, and not a cash discount. The view has been expressed elsewhere as follows: "The cash discount is a premium offered by the seller to the buyer for anticipated payment of a bill not due."[1] The thought

[1] Proceedings, National Wholesale Lumber Dealers' Association, 1917, p. 50.

is to stress the fact that the discount has as its purpose to secure prompt payment, instead of later payment at the expiration of the net period. As such, it represents a concession by the seller, and the period within which payment is required should be observed. Moreover, in order to secure prompt payment, the discount must be somewhat in excess of the current rate of interest, so that borrowing from the bank in order to take the discount is profitable. Where net terms are 30 days, a cash discount of 1/2 per cent 10 days is not effective, but a cash discount of 1 per cent or 2 per cent 10 days is.

Furthermore, the maximum size of the cash discount is also limited. All buyers in any given industry are not in a position to discount their bills, and in some lines by far the larger part may take the net terms. In such cases there is no advantage in penalizing the buyer who cannot discount, and, at the same time, there is no gain in favoring the buyer who can. Theoretically, the size of the discount from the point of view of the seller who is amply able to borrow from his own banks should be determined by the current rate of interest to him, plus the cost of credit work on and handling of the accounts which do not discount, plus the bad debt loss experienced on such accounts. In any event, however, the size of the cash discount and the length of the net terms are closely and mutually interrelated. Once given the net terms, within broad limits the cash discount is determined, and vice versa. Each is an integral part of the terms structure.

Relation to Terms.—Opposed to the view which has just been stated is the opinion held by some writers that the cash discount and the terms are entirely separate. The first, they hold, relates to a discount; the second, to time. These writers, in general, believe that little standardization of terms on the whole exists, and that the cash discount cannot be dissociated in actual practice from the trade

discount. Those who hold this view come in contact largely with those industries in which what have been termed general competitive conditions bulk largest in determining terms, and in which there is thus frequent bargaining, both as to length of net terms and as to size of discount. The size of the discount, they hold, becomes rather a price problem. Instances which they cite in support of this contention include cases, for example, where a seller who quoted 8 per cent 10 days granted 9 per cent for spot cash. They also refer to the fact that terms in the case of tea and coffee sales by importers and roasters to jobbers and in the case of sales by trading jobbers in the textile lines, often vary according to the price quoted.

The important point to remember in connection with such illustrations is that they are exceptions to the usual order of things. In last analysis, the cash discount and the price are entirely separate. The more this is recognized, the better is the basis on which industry finds itself. The credit problems constitute a distinct class, and should be treated separately. This is recognized by those associations which have considered the question and which have recommended terms to their members. While some may call their committee one on "terms and discounts," the interrelation of both is recognized, and no attempt is made to regulate one without regulating the other. Although these terms are not universally adhered to by any manner of means, even as a rule by any one member, nevertheless they represent a norm or standard for the particular industry in question. The distinctive character of the credit problems, and the resultant interrelation of the discount and the net terms, have a sound basis in theory and are being recognized in actual practice to an ever increasing degree.

Function.—As already noted, the use of a cash discount serves as a ready means of dividing buyers into two general

classes. It is somewhat higher than the current rate of interest, hence will be taken by every buyer who can possibly do so, either with his own funds or with funds borrowed from the bank. In other words, it is taken by those buyers whose credit standing is superior. It thus furnishes the seller with a means of judging the credit standing of his customers and also eliminates the credit risk on a considerable part of his accounts.[2] Thus it also enables him to concentrate his attention upon the poorer credit risks which do not take the discount, and hence tends to increase the efficiency of his credit work, at the same time that it curtails the total amount of such credit work and reduces the cost of the credit department. It should tend to decrease the amount of loss due to bad debts, although the proportion on accounts which run to the net period will naturally be larger than if no discount were granted, and the larger actual loss otherwise sustained were compared with the total sales.

This is the situation from the mercantile point of view. It should, however, be remembered that, as most buyers do not have the cash themselves with which to discount their bills, they must turn to the bank. The use of the cash discount, therefore, results in having the buyer as far as possible obtain his funds directly from the bank, instead of having recourse to the seller through buying on time and taking the net terms. The bank then measures the credit of the buyer directly, and not the seller. The latter measures only the credit of the poorer accounts which do not take the discount, and himself borrows from the bank in turn in order to obtain funds with which to carry these accounts. He thus in effect guarantees such accounts to the banking system. He then has either a contingent liability on receivables which he has rediscounted or a direct

[2] This is of course more important in certain lines than in others. The longer the net terms, the more certain a cash discount.

liability for his own borrowings, whereas with the buyer who takes the cash discount he assumes no liability whatsoever.

Length of the Cash-Discount Period.—Cash with order (C. B. D., or cash before delivery) is generally not required. Instead, the thought is rather to grant the cash discount for payment within a time sufficient to transport the goods from seller to buyer, and in addition to give the buyer an opportunity to examine them and to check them up with the invoice. This time accordingly governs the length of the cash-discount period. It varies considerably in the different industries. The necessity for it is determined largely by the nature of the article, and the general competitive conditions which exist in the particular industry in question. Standard goods do not require the same careful examination as do non-standard ones, nor are buyers in industries in which general competitive conditions are upon a high plane, under the necessity of insisting in all cases upon inspecting the goods before paying for them. Wholesale grocers in discounting bills regularly remit before the goods arrive. On the other hand, lumber needs careful examination, and elaborate provision is therefore made in the terms for taking the cash discount in the event that the car has not arrived within the specified cash discount period. The recommended terms of the National Wholesale Lumber Dealers Association permit the discount to be deducted for payment within the period of 80 per cent of the net amount of the invoice (estimated freight deducted). Prepayment of this sum does not forfeit the right to make corrections, and the balance is due within 10 days after arrival and unloading. In other lines where inspection is desired, such as furniture, both the cash-discount period and the net terms are often lengthened in the case of shipments to distant territories, as was seen in the preceding chapter.

The cash-discount period is usually 10 days. In some cases, however, 15 days or 20 days may be specified, and monthly settlement is often permitted. In the latter case, the regular cash-discount period commences on the first of the following month, and proximo or e. o. m. terms are obtained, which represent a grouping of transactions. Further exceptions to the customary period occur in cases where salesmen are used to collect bills on their regular visits to the trade, which often leads to grouping on a less than monthly basis, and in cases where arrival terms are used.

Methods of Quoting.—The cash discount may be quoted in any one of several ways. The usual method is as a certain percentage of the face amount of the bill, from which it is then deducted. In some wholesale lines, notably groceries, the discount is frequently averaged on a given bill of goods at a uniform figure, instead of deducting the specific percentage on each individual item. As the discount on the average will be about 1 1/2 per cent, this amount is deducted, instead of considering whether each item falls within the 1 per cent or 2 per cent group. This practice is of course more convenient in billing.

In various lines, however, a price differential, stating a definite amount in cents per unit of product, is quoted instead of a percentage. In the building supply lines, cement manufacturers formerly granted 2 cents per barrel for payment within 10 days from date of shipment, but increased the amount at the opening of 1916 to 5 cents per barrel as a result of the increase in the price of the product. In 1920, certain producers increased the figure to 10 cents, which was equivalent at the time to a little less than 3 per cent. While some of the larger manufacturers of common brick grant a regular cash discount, which ranges from 2 per cent to 5 per cent 10 days e. o. m., in certain localities, especially the far West, discounts as high as $1.00 per

thousand have been granted for payment within 30 days from shipment, and a price differential of $1.00 is frequently quoted as between cash and credit shipments.

A similar situation exists in the case of certain foodstuffs. In California, wholesale grocers allow a price differential on sales of sugar, although in the remainder of the country the regular discount is employed. Since August, 1918, this amounts to 10 cents 10 days per 100 pounds, in northern California, and 10 cents for payment by the 10th and 25th, in southern California. In the case of flour, there is customarily a price differential, which generally amounts to 5 cents per barrel, and sometimes 10 cents, for payment by sight draft instead of arrival draft, but this depends upon the distance the flour is shipped.

Terms in the anthracite coal industry afford another illustration of price differentials. The company prices vary according to a regular schedule from month to month throughout the year, being lowest in the months of slack demand, in an endeavor to stimulate purchasing. As such, they may be considered to represent a price differential or discount which serves in lieu of a dating. Finally, in certain lines, such as on sales of tobacco products to small retailers, the cash discount is already deducted from the price, and the buyer is quoted only a net cash price.

Another exception to the usual method of quoting cash discounts is seen in cases where the terms are quoted on one basis, but settlement is required on another. This is, however, somewhat rare, and the best example is afforded by terms on green coffee. A leading importer provides that on sales to domestic buyers in lots of 200 bags or more the basis shall be 90 days, less interest at the rate of 8 per cent per annum for unexpired time. Full settlement in any event, however, is to be made within 30 days, and a cash discount of 2 per cent (based on the rate of 8 per cent per annum for 90 days) for approximate amount in New York

funds is granted, when mailed by buyer on day of shipment.

Size of the Discount.—Theoretically speaking, once the net terms and the current rate of interest are given, the size of the cash discount is fixed. In mathematical language, the one is a function of the other, so that the adjustment should be quasi-mechanical. But in actual practice the matter is not so simple. Various and complex forces are at work. Some range of variation therefore exists, within which the cash discount may differ from the theoretically fixed standard. This refers to the cash discount proper, using the word in its narrower sense. As has been seen, in addition to the cash discount proper, the discount actually quoted may include a greater or lesser element of the trade discount, even for payment at what is practically the net period.

The factors which bring about this variation from the standard, or which cause a trade discount element to be injected into a cash discount, are in a broad way the same as those already considered as governing the length of the net terms. One of these factors has to do with the rate of turnover of the merchandise. Slower moving articles generally carry a higher discount. This serves in a way to offset the longer time required and in addition to minimize the risk, as a larger proportion of accounts tend to discount their bills. The cheaper grades of merchandise frequently turn over more rapidly than the better grades, and the discounts differ accordingly. Cheaper dresses are said to be sold largely on terms of net 10 days or 2 per cent 10 days, but fine and medium grade dresses carry terms of 8 per cent 10 days (in some cases with e. o. m. terms or 30 days extra), and some extremely high priced dresses carry terms of 8 per cent 10 days or 7 per cent 10 days, 60 days extra. The same difference is found in the fur industry. Manufacturers usually sell fine furs with a 7 per cent

discount, while they sell cheap furs for the winter season with a 2 per cent discount. They, however, sell cheap furs for summer with a 7 per cent discount, due, it has been suggested, to the fact that when the fur trade was a one-season business, special inducements were necessary to stimulate early orders, and these persisted even after the industry had assumed a two-season character.

The Credit Risk.—The other factors may be considered largely as manifestations of the general competitive conditions which prevail in the industry. At the present place, it is unnecessary to consider the entire list already elaborated in Chapter III. Instead, it will be better to select merely certain leading factors which have special application to the present problem. These factors are two-fold—the position of the buyer as a credit risk, and the position of the seller.

As a general rule, the poorer the credit risk, the higher is the discount which is offered. By this means, the buyer has a greater inducement to pay cash, and a larger proportion of accounts accordingly tend to discount their bills. Where an industry sells to two classes of buyers, the discount to one group may therefore be greater than the discount to the other, although the net terms to both are the same. Manufacturers of lead products sell trade sheet lead and lead pipe on terms of 2 per cent 10 days, net 30 days, while they grant a discount of only 1 per cent on chemical sheet lead and chemical lead pipe. The first class of items is sold largely to jobbers of plumbing supplies and to plumbers, while the second class is sold largely to the chemical trade. A 1 per cent discount is sufficient inducement to the large concerns of first class credit standing in the chemical trade to generally discount their bills, but it is insufficient in the case of jobbers of plumbing supplies and plumbers, to whom a 2 per cent discount is therefore granted.

Partly as a result of this factor, in various industries the greater the degree of manufacture of an article, the larger the discount which is quoted. This is due to the fact that the buyers become smaller and poorer credit risks. It is due also to the fact that the more highly manufactured goods are bought in smaller lots and turn over more slowly, so that more time is needed to cover the marketing period, and hence a correspondingly higher cash discount. Terms and discounts in the iron and steel industry vary in this manner. Pig iron carries terms of net 30 days, semi-finished products such as billets, blooms and slabs and lighter rolled products carry the same net terms, but with a cash discount of 1/2 per cent 10 days, and wire products, sheets and tin mill products carry a cash discount of 2 per cent 10 days, while the regular terms of hardware manufacturers are 2 per cent 10 days, net 60 days.

Position of the Seller.—In discussing this question, the situation of the seller must be considered, as well as the situation of the buyer. If the seller's capital position is weak, he will be willing to offer a higher discount in order to secure cash payment, rather than to wait until the close of the net period. Some sellers of copper, for example, who have been in need of cash, have given a discount of 1/2 per cent at times in the past, although usually no discount is given. Similarly, the newer and smaller manufacturers of machine tools, in order to get funds quickly, are often said to offer a cash discount, which they discontinue after they have been in business several years and have become better and more firmly established. Similarly, manufacturers of mill supplies are often smaller than manufacturers of machine tools and are possibly not so well financed, so that the custom of offering a cash discount is much more frequent among them than among the machine tool manufacturers.

On the other hand, the discount may vary with the

seller's margin of profit. The larger the margin, the greater the discount which he may grant, and conversely, the narrower the margin, the more closely restricted is the discount. This is well illustrated in the case of some of the millinery jobbers on the Pacific Coast who also sell various dry goods items. These, it is said, are sold on a much closer margin of profit than millinery, and terms on them are accordingly 2 per cent 10 days, 60 days extra, instead of the regular millinery terms of 6 per cent 10 days, 60 days extra (with season datings of April 1 and October 1). While this factor operates also in normal times, it is of special importance at a time when prices are rising rapidly. The increase in the cost of production as the prices of raw materials and labor rise, tends to reduce the manufacturer's usual margin of profit. The latter, therefore, tends either to raise his own prices correspondingly or else to decrease or eliminate the cash discount. Many manufacturers during the war period therefore adjusted their cash discounts.

Net Terms.—Classified according to size, discounts may be considered as (1) non-existent, net terms alone being quoted; (2) low; (3) high or competitive; and (4) graded, several optional periods with different discounts being quoted. Each of these classes will be considered in turn.

In some lines, net terms alone are quoted. This is conspicuously the case with merchandise which serves a manufacturer as raw material and is used by him—either as the chief material or as an auxiliary material—in working up his finished product. Prominent among these articles are coal and coke, of which a regular supply is used currently. As was already seen, they generally bear terms of net 30 days, which in some cases are quoted on a proximo basis. Likewise, capital goods, such as machinery, railway equipment and ships, usually bear no discount. Where the amount is small, they are sold on net terms of 30 days, and where the amount is large periodical payments (without

discount) are required as the work progresses. In the latter case, little time is actually granted by the seller, while where net terms alone are quoted, the time granted is generally short.

In several lines, what are in effect net terms are quoted, although a cash discount (which really represents a trade discount) is specified. Manufacturers of zinc sheets regularly quote terms of 3 per cent 10 days, while manufacturers of auto tires regularly quote 5 per cent 10th proximo. In the former case, no net terms are generally quoted, while in the latter case, many manufacturers likewise quote no net terms. Where a season dating is granted, a similar situation may exist. Some manufacturers of men's clothing, for example, merely quote 7 per cent 10 days, December 1 and June 1. This has the advantage of enabling the seller to insist upon payment of accounts of financially involved customers at any time after the expiration of the initial 10-day period. It thus gives him a superior legal position, although in actual practice he may informally grant more time with correspondingly reduced or graded discounts.

Low Discounts.—The scale of discounts most frequently found is on the basis of 1 per cent 10 days with net terms of 30 days, or 2 per cent 10 days with net terms of 60 days, although in a considerable number of cases a cash discount of 2 per cent 10 days accompanies net terms of 30 days. The discount is then at the rates respectively of 1 per cent for 20 to 30 days (or 12 to 18 per cent per annum), 2 per cent for 50 to 60 days (or 12 to 14.6 per cent per annum), and 2 per cent for 20 to 30 days (or 24 to 36 per cent per annum). These are the discounts found in some leading lines, both manufacturing and jobbing, such as groceries and hardware. At the same time, in lines where a higher discount is quoted, the differentials are usually at about the same rate, in particular 1 per cent per month.

In some lines, merely a nominal discount, such as 1/2 of 1 per cent 10 days with net terms of 30 days, is quoted. Where this is the case, no large percentage of accounts are expected to discount their bills, as the inducement is very small. The discount is only equal roughly to the current rate of interest, and borrowing in order to take it is not encouraged. Bills will therefore only be discounted by large buyers who have considerable surplus cash. A buyer who purchases a variety of articles will naturally take full time on such items, and will first discount those bills on which the discount is most liberal.

High or Competitive Discounts.—In other lines, high discounts are the rule. That is, the discounts which are quoted contain an admixture of the trade discount. The standard for manufacturers of woolens and worsteds, for example, has been 7 per cent 4 months. Discounts of this kind usually range up to about 10 per cent, although cases are recorded up to 16 per cent, and the lower figure may be placed at about 5 or 6 per cent. While these high discounts are often associated with a long net period, especially in the textile and apparel lines, this long net period, as has been seen, is due largely to the general competitive situation in these industries, and so also directly are the high discounts quoted. They represent to a considerable extent a concession by the seller. In some lines the discounts are adjusted more closely to the length of the net terms quoted, but in other lines such as those just cited the competitive situation either leads to deviation from this standard, or else injects a trade discount feature into both the cash discount and the net terms as ordinarily quoted. The discount on the whole is apt to be larger in lines where the product is purchased for resale in the same form, and not for further manufacture. A greater differential is obtained, and this is of more importance than where a manufacturing process by the buyer intervenes.

High discounts often tempt the buyer, in particular the retailer, to abuse the terms. He buys on one basis and endeavors to settle on another. Cases are frequently mentioned where a buyer who pays at the close of the net period deducts the discount and adds interest for the time taken. Mr. Ira D. Kingsbury in a paper on Datings and Discounts read before the National Association of Clothiers in June, 1914, gave details as to how some retailers of men's clothing had succeeded in obtaining such concessions from the manufacturers. Similar complaints are heard in other industries.

Department Store Discounts.—The department store in the past has generally preferred to buy on a high discount basis, and instances of 10 per cent and over are recorded. Its buyers have been instructed to purchase in this manner. Especially are such discounts found in the case of luxury items which involve large amounts and on which the retail price is not closely figured. The store charges the items to the respective departments at their total price (neglecting the discount), and the resale price is figured on this basis. This leaves a considerable margin which goes towards meeting the overhead expenses of the store. This system of purchasing is susceptible of considerable abuse, and certain stores are generally stated to take advantage of their position and force weak sellers to grant large discounts. An authority in the dress and waist industry told the writer that he knew of concessions "all the way up to 16 per cent and paying for ———'s advertising." Such tactics, however, are by no means employed by all stores. Other stores are just as frequently pointed to as always buying on the regular terms prevailing in the various industries, and do not endeavor to obtain concessions of this kind.

Graded Discounts.—What may be termed graded discounts comprise a special class of discounts. Instead of

quoting merely one cash discount for payment within a certain period, and one set of net terms, several cash discounts are quoted, declining in size as the period increases in length. The number of discounts may or may not be such that terms at the longest period are strictly net. Some wholesale dry goods houses, for example, quote terms of 2 per cent 10 days, 1 per cent 30 days, net 60 days, while the recommended terms of the Broad Silk Manufacturers Division of the Silk Association of America call for 6 per cent 10 days, 60 days extra, 5 per cent 90 days, 4 per cent four months, etc., until net terms of 8 months are reached. Furthermore, woolen and worsted manufacturers often sell on terms of 10 per cent 30 days, 8 per cent 60 days or 90 days, and 7 per cent four months, and in this case, as has already been remarked, a trade discount element is introduced. Where graded discounts are quoted, the poor credit risk may not be quoted all the options, but may merely receive, for example, 10 per cent 30 days or 8 per cent 90 days, the better risks alone being quoted the other option also. That is, relating the matter to the principle of the marketing period, the period of the poor credit risk should be shorter. This is only fair, inasmuch as, in the interest of safety, he should have a quicker turnover.

But consider rather the discount. The graded discount, with its several options, serves to divide the burden of carrying the article between the seller and the bank. It invites the buyer to borrow what he can, in order to take as large a discount as possible. He thus carries the article (through the bank) as long as possible, and the seller carries it for the remainder of the marketing period. To accomplish this purpose in the most effective way, the discount should be graded scientifically, and should be regressive. That is, it should be more worth while to a buyer to pay in 10 days rather than in 30 days, than for

him to pay in 30 days rather than in 60 days. A scale of discounts roughly along the following lines should be employed:

First	30 days	1½ per cent,	or roughly	3¾ per cent cash
Second	30 days	1¼ per cent,	" "	2¼ per cent 30 days
Third	30 days	1 per cent,	" "	1 per cent 60 days

with net term of 90 days

By this means the best results would be obtained, while at the same time, if the differences between the discounts for the different periods were not too great, the small buyer would not be penalized too heavily. In actual practice, however, this plan is by no means followed, and discounts for successive periods are generally equal, the decline usually being at the rate of about 1 per cent per month.

Anticipation Rates and Past-Due Rates.—Where the buyer does not pay within the cash discount period, yet anticipates or pays prior to the net period, some concession is made. In certain ways, the rate of anticipation which is allowed is allied to the cash discount. The rate at which anticipation is permitted is generally not, however, as high as the cash discount, and it is usually expressed in the same way as interest rates, namely, at so many per cent per annum. In fact, it often is 6 per cent, the legal rate of interest in many states. On the other hand, in many cases it is somewhat higher; 8 per cent is rather frequent, and 12 per cent has been found. In some cases, where a low rate is granted for anticipation of fairly long terms, it may almost penalize the buyer who anticipates instead of taking the first period specified. A buyer who anticipates the broad silk terms of 6 per cent 10 days, 60 days extra, does so at the rate of 6 per cent per annum, while if he takes additional time beyond 70 days the cost to him, as has been seen, is 1 per cent per month or 12 per cent per annum.

The terms quoted often also specify the rate of interest

which shall be paid in case the account runs beyond the net terms, although this is just as often not done. The rate generally appears to be 6 per cent. In any event, of course, the legal rate of interest would apply, so that no specification is actually needed.

CHAPTER VI

TERMS IN RELATION TO BUSINESS CONDITIONS

Certain standards in net terms tend to become established as a result of the three forces which were considered in Chapters II and III, and so also certain corresponding cash discounts. But over a series of years the standards themselves regularly change. Aside from a long-run tendency in one direction, which goes on steadily for an extended period, there is a rhythmic ebb and flow over shorter periods of time. Terms now lengthen and now shorten. This wave-like movement occurs in response to changes in general business conditions. Terms vary in accordance with, and parallel the course of, the business cycle. The movement manifests itself in several ways. It occurs much more largely in the terms quoted by individual houses than in the regular terms in the different industries which have a tendency to remain fixed. But it occurs even more largely in the manner in which such terms are observed. This is reflected in the percentage of accounts which discount their bills and in the promptness of collections. It is in these directions that the principal changes occur.

The Business Cycle.—The best current thought as to the course of business conditions recognizes the existence of a business cycle, which contains in a broad way three stages: (1) prosperity, (2) crisis and (3) depression. The course of business is continuous. There is a steadily changing process; business passes through each stage in turn until it gradually reaches the next, and when one cycle is completed another begins all over again. In any one cycle there is first a period of revival which turns after a while

into cumulative prosperity. The past activity of business leads to greater and still greater activity. But in the course of this acceleration of activity serious elements of weakness develop in the business structure and system, and these in time are sufficient to cause a change. From being on the up-grade, business activity turns to the down-grade. As activity cumulatively lessens, business enters a second stage. The change is either gradual, as in the United States in 1920, and is termed a crisis, or it may become spectacular, as in 1907, and degenerate into a panic. Following this second period is a third, that of depression. In this period the cumulative readjustment of business proceeds, and the commercial and industrial community gradually puts its house in order. At length, business emerges from the third period and enters the first stage of a new cycle. A new period of revival and prosperity commences.

The course of the cycle has been sketched in merest outline.[1] No sharp lines actually exist which divide one period from another, and the several periods blend into each other. The length of any two cycles is by no means the same, and no fixed length may be assigned to any of the stages in the cycle. The process of change manifests itself in a great variety of ways, and its effects are many fold. They are found in production, in trade and in prices, no less than in banking and in credit.

Terms and General Business Conditions.—Credit alone concerns us here. It is necessary to trace its course in detail throughout the three stages of the cycle. Take first the period of prosperity. It is generally held that, as business activity increases and prices rise, it becomes more and more attractive for the business man to borrow as much as possible, instead of relying merely upon his own capital.[2]

[1] See Mitchell, *Business Cycles* (Berkeley, 1913).
[2] See Veblen, *Theory of Business Enterprise* (New York, 1915), Chap. iv.

He is enabled to expand his scale of operations and thus to share to a greater degree in the existing prosperity, at the same time that his costs are lessened, due to the fact that the capital so borrowed obtains only a fixed interest return. He is able to borrow because of the increase in the capitalized value of his enterprise as a result of the increase in anticipated profits. Consequently, the volume of credit outstanding is pyramided, and tends to increase much more rapidly than the volume of goods which are produced, until finally a break comes.

Which direction does this credit extension take? It has at times been stated that at the end of a period of credit expansion business houses prefer to buy on time, and an expanded network of mercantile credit is consequently found. This would seem to imply that, due to a desire for an increased volume of business, sellers have granted additional time in order to stimulate sales. But during the period of prosperity, merchandise is in good demand and sales are made readily. A seller's market is found, and goods may become scarce in certain lines. Moreover, as prices rise a strain is placed upon the seller to finance himself. This is especially the case with the manufacturer, for it is well known that increases in the prices of raw materials and semi-manufactured goods generally tend to outrun increases in the prices of manufactured products. Only in the case of industries in which considerable trading develops, and much speculation accompanies the rising prices, would it appear that terms might lengthen somewhat. On the whole, therefore, terms would appear to shorten instead, and the increased volume of credit would appear to result from borrowing by buyers direct from banks in order to take cash discounts. In other words, in the credit structure business houses are tied directly to the banks during the period of prosperity, rather than to other business houses. In fact terms tend to be shortened.

This condition prevails until just prior to the crisis or turn in business conditions. As business hesitates, the sellers lose their domination over the market, and may well lengthen terms somewhat as an inducement to keep up sales. The situation is very complex, and it is difficult to locate the exact moment of change, in particular with respect to terms. It is likewise difficult to determine the exact relation in point of time between the change in terms and the change in general business conditions. When the new trend of business in the reverse direction is definitely ascertained, or at least the check to the upward movement, terms at first may again well be somewhat shortened. Prices are falling, conditions are uncertain and business men are hesitant.

As business passes through the third stage, that of depression, terms distinctly tend to lengthen. Sellers no longer control the market, and hence offer such concessions to buyers. The instinct of caution is overcome by the desire for business. Moreover, the buyer's turnover is less rapid and his marketing period is correspondingly longer than when times are brisk. At the same time, after the process of liquidation is completed, sellers possess surplus funds which are available to extend this additional time. All these forces make for longer terms. The point of maximum length is perhaps reached shortly after the opening of the new period of revival and prosperity. The older long terms are continued somewhat into the new period and help to stimulate it and bring about the change in the course of business. Once prosperity is firmly established, terms again shorten and the cycle commences all over again.

Movement of Terms in Particular Industries.—This situation with respect to conditions in general is merely a reflection and a synthesis of the conditions which prevail in a host of individual industries. In each of these, market conditions and the relations of demand and supply likewise

show a wave movement over a period of time, entirely apart from the normal relation between buyer and seller considered in Chapter III. At times a buyer's market exists, at times a seller's market. The terms in use vary according to these changes. Different lines differ in the degree of responsiveness of terms to market conditions, and in some lines terms are much more flexible than in others. Particularly responsive are those industries in which there is considerable trading in an unorganized open market. The movement of terms in this manner is well recognized in certain industries, and the war period further served conspicuously to point out the fact in others, as will be seen in more detail later. Prime western zinc, for example, was scarce during the early part of the war period, and producers' sales accordingly were almost wholly on sight draft, but since the middle of 1917, it has been in free supply and leading consumers have been able to re-establish the former terms of net 10 days to net 30 days from date of shipment. In a totally different industry, a Boston wholesaler of anthracite coal states that when conditions are normal, considerably over 30 days is often extended, but in times of shortage retailers collect more promptly and thus are enabled in turn to pay wholesalers more promptly.

Discounts and Business Conditions.—The situation with respect to the length of net terms which has been described should appear to be reflected in the situation which exists with respect to the rate of cash discount quoted. Such rates, however, are related not merely to the length of the net terms, but also to the current rate of interest. During the period of prosperity, interest rates gradually increase as business becomes more active and the demand for funds increases. They reach a peak during the second or crisis period, and then fall during the period of depression, reaching a low point at the opening of the period of prosperity, when they aid in preparing the way for the revival which

takes place. Thus not only do the net terms change in response to the course of the business cycle, but the relation between the length of the net terms and the size of the cash discount also changes as the current rate of interest changes in accordance with the course of the cycle.

Considered with respect to their influence upon the size of the discount, these two influences operate in opposite directions, and tend to offset one another. While interest rates rise during the period of prosperity, and thus tend to increase the rate of cash discount, the net terms shorten, and therefore tend to decrease the discount. The reverse is the case during the period of depression. In other words, these two influences tend to keep the discount constant, or at least to introduce a certain measure of stability into it. However, the adjustment between these forces is by no means perfect, and it is even more difficult to trace the changes in the discounts actually quoted than it was in the case of the net terms.

In actual fact, there is no great nicety of adjustment in discount rates. They are generally relatively large in size as compared with current interest rates, and the pressure for funds which exists is probably a more potent force. The influence of business conditions is accordingly seen rather in the changes which occur in the percentage of accounts taking the discount. High interest rates reflect "tight" money. As funds become more difficult to procure, it becomes necessary for the buyer to take the full net period and let his accounts run until maturity, instead of discounting them. At the same time, the seller desires payment as promptly as possible, and may actually increase the discount in order to induce discounting of bills instead of payment at the close of the net period, in spite of the fact that he shortens the net period itself.[3] At the peak of

[3] Other considerations may also enter. The seller may decrease the discount in order to keep prices down as much as possible.

the period of prosperity, this conflict between the interests of buyer and seller is most accentuated. When activity decreases after the crisis and business definitely enters the period of depression, interest rates decrease as the demand for funds diminishes, and the percentage of accounts taking the discount tends to increase.

Wartime Changes.—The war period represents a distinctive epoch in the history of terms of sale in the United States. At that time two influences came together. On the one hand, the period of prosperity in the business cycle was present in accentuated fashion. There was a heavy demand and a strong sellers' market, in general, and especially in the case of certain individual commodities. That part of the changes in terms during the period was due to changes in general business conditions is seen from the fact that terms in certain lines which were shortened have again tended to lengthen as the post war change in business conditions has become evident. On the other hand, throughout the period there continued a movement to shorten terms, which had previously made its appearance. These two influences were in the same direction and tended towards the same ends. They thus served to re-enforce each other, and to bring into extra strong relief the tendencies in terms which resulted from them.

In part, these war changes were made at the instance, or under the encouragement, of organizations designed to aid in furthering the prosecution of the war. It was urged that the greatest possible efficiency should be obtained in the credit and financial system, as well as in other fields. This it was proposed principally to accomplish in two ways: (1) through the use of the trade acceptance system, which will be discussed at greater length later, and (2) through a shortening of credits and prompter collections. By the latter means, the merchant would obtain quicker turnover of his capital, and maximum use might be made of the

funds available to finance the larger volume of business done. The chairman of the committee on commercial economy of the State Council of Defense of Washington, in an address before the wholesale grocers' association of that state at Tacoma on October 11, 1918, stated that business should get as near a cash basis as possible, advocated a "pay-as-you-go" policy for retailer as well as consumer, and proposed that terms be limited to 30 days with a discount period of 10 days. The adoption of a proposal of this kind undoubtedly would result in curtailing the volume of credit, especially on the poorer risks. On the other hand, it would merely have a tendency to make the intermediate risks deal directly with a bank as far as possible in order to obtain funds, instead of, as at present, buying on time from a business house which itself must borrow from a bank in order to carry them. There would be no effect upon the best risks, as they at present already go direct to the bank.

Types of Changes.—The actual changes in terms during the war were most pronounced in two types of lines. They were especially apparent in industries in which there was a strong scarcity of goods. This was notably the case in various branches of the textile industry. Here the shortening of terms appeared in various forms. The season dating which had been previously granted on certain items, such as underwear, was eliminated. On other items, terms were shortened by some sellers to as little as 10 days, and buyers were required to take the goods at once, instead of having them delivered only as they desired them. They might therefore, for example, receive goods in the spring several months before they actually needed them, and thus an increased burden would be placed upon them. This situation was vividly depicted by Mr. Thos. A. Fernley, Secretary of the National Wholesale Dry Goods Association, in a "Market Service Letter" to his membership under date of April 28, 1920, reading in part as follows:

It is only since the war period that an intensive sellers' market has caused a withdrawal of the reasonable terms and discount arrangements by the manufacturers, commission houses and selling agents.

Coupled with the restrictions in terms has been the demand that the wholesaler take goods far in advance of the season for immediate payment where such goods are sold on 60 days' terms, making it necessary for the wholesaler to strain his financing arrangements to the limit to finance not one, but two or three seasons' goods at the same time.

One wholesale dry goods house reports that they now have in stock, or on the way or on order and quite certain of shipment, four million dollars' worth of merchandise which is payable before June 1st.

This wholesaler further states that a considerable quantity of this merchandise is sold to the trade with October 1 dating. Further, that later on, they will be called on to take in another season's goods far in advance of the time they are needed.

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It should be borne in mind that the manufacturers are not solely to blame for present conditions as the buyers have in many instances urged the manufacturers to make advance deliveries for fear of a shortage later, and other buyers have felt obliged to do likewise in order to protect their interests.

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The wholesalers consider it an increased hardship to be asked to take in fall merchandise during the months of January, February and March and pay for the goods in 10 days, making the average fall purchases payable February 10, and in turn hold the goods until at least September, or 7 months, and then bill them at 2-10 60 extra, the retailer making payment for these goods from 9 to 10 months after the wholesaler has paid the bill.

The wholesalers' warehousing difficulties in being called on to purchase and receive merchandise costing 3 times the normal price and carrying it in stock for 9 months without being able to ship it, are as obvious as the financial side of the question.

It would appear to be a case wherein the manufacturer foregoes the necessity of taking any chance, and the retailer declines to accept the risk, leaving the wholesaler to assume and bear the burden of both.

The wholesaler is aware of the fact that the average retailer

will not take in fall merchandise in the spring, and even if he were willing, the credit situation might make such a policy unwise.

An analysis of their financing requirements by some of the wholesalers indicates that the present tendencies on the part of the manufacturer make necessary the financing of about ⅔ of the wholesaler's business in 2 months' time and that such a necessity forces the wholesaler to limit his purchases in order to meet the situation satisfactorily in a financial way.

Some mills, although quoting 60 days' terms, have attached high rates of anticipation which must be figured in the cost, and no jobber can afford to take advantage of the 60-day term, practically making the bill a 10-day matter.

A summary of the foregoing was presented to several manufacturers who conceded the fact that many of the strictly war measures had been found so advantageous to themselves that they had been continued, even though the war was practically over.

In the woolen and worsted industry after 1917, manufacturers who had been selling on terms based upon 7 per cent 4 months tended to reduce the maximum time granted to either 30 or 60 days, while the season dating was also frequently eliminated. Certain manufacturers who had been selling on terms of 10 per cent 30 days took advantage of the opportunity to eliminate the discount, and henceforth quoted terms of net 30 days, although this made no difference in the time actually granted. At the end of 1920, however, a tendency to revert to the older terms appeared as a result of the lessened demand for goods. During the war period the discount was decreased in other lines. A tendency in this direction was marked, for example, in the case of hardware manufacturers.

The changes were also especially pronounced in those lines in which goods are purchased for resale. The wholesaler is the chief of such buyers. As was indicated in the quotation from Mr. Fernley, he feels that he is crushed between the upper and the lower millstone. The larger wholesale lines, especially dry goods and hardware, appear to have been affected to a considerable extent. On the

other hand, the manufacturer who buys an article which he uses in producing another article does not feel the same pressure, and is less concerned with the terms which are quoted him. In lines where manufacturers sell both to wholesalers and to other manufacturers, and especially where sales to other manufacturers are of major importance, terms may be fixed by the selling manufacturers regardless of the wishes of the wholesalers. This has been the case in various lines. Selecting several illustrations at random, wholesale grocers were unable to obtain a cash discount from packers in 1907, while in the early part of the war period, manufacturers of bolts and nuts reduced their terms from 2 per cent 10 days, net 60 days to 1 per cent 10 days, net 30 days, in spite of the opposition of the hardware wholesalers, and several years ago wholesale druggists were unable to obtain the terms desired from manufacturers of white lead.

The Tendency to Shorten Terms.—For some time prior to the opening of the war, movements had been under way in various industries to shorten terms. After the cash discount-open account system had succeeded the former note and draft system in the United States, the terms employed in many lines were long, and customary settlement dates of the kind described above in Chapter II were found. Prior to about 1900, as has been seen, long terms were in use in the steel industry. These were changed at the opening of the century in various branches to substantially their present basis, although a few, such as bolts and nuts, have since been further shortened. In the 90's a movement was already on foot among various hardware manufacturers to introduce net 30-day terms, but the opposition of the wholesalers resulted in the retention of the regular terms of 2 per cent 10 days, net 60 days. The movement only appeared again after the outbreak of the war in 1914, and took the form rather of decrease in or elimination of the

discount by certain manufacturers. Particular force was lent to the movement at that time by the advance in the prices of various hardware articles as the cost of production increased, and by the existence of a sellers' market. With the passing of war conditions, however, the movement lost force, and in 1918, the wholesalers' body, the National Hardware Association, stated that "many of the manufacturers who changed their terms during the past year reinstated the discount."

A similar situation existed in other lines. Shortening of manufacturers' terms on woolens and worsteds is stated by some authorities to date back to the 90's. Prior to about 1893, practically all woolen goods were distributed through the old fashioned commission houses and terms were almost uniformly 10 per cent 10 days, 9 per cent 30 days, 8 per cent 60 days and 7 per cent 4 months, with season datings of June 30 and December 31. In that year, the present system of separating the merchandising and financial ends of the distribution of woolens began, and the largest of the old commission houses gradually dropped the merchandising end of the business and confined themselves to acting as factors. At the same time, gradual shortening of the long dating originally given by these houses took place. Little agreement exists among various authorities as to the details of this movement, and it is variously stated as having been found during the past decade or since about 1905, or as being particularly marked since about 1912. At the latter date there was a movement of manufacturers away from commission houses, and it is stated that these mills largely employed terms of net 30 days. The subsequent changes after the opening of the war have been sketched in the preceding section.

For some years prior to the war, wholesale grocers had likewise endeavored to shorten their terms. In the classification of items according to terms and discounts allowed,

efforts were made to bring certain items from the 60-day to the 30-day column, and others from the 30-day to the net column. Strong emphasis was likewise placed upon the need for prompt collections. The monthly reports of outstandings which certain of the associations prepare, showing the percentage of bills and notes receivable outstanding on the first of the month to the previous month's sales, have had as one of their primary purposes to afford an indication of the extent to which closer collections are being made and terms are being shortened.[4] As a result of this movement, the period of credit has been greatly decreased in various sections. This is shown by the following percentages:

FIFTEEN COLORADO GROCERS

Average first 6 months, 1916	141.2
" last " " "	135.
" first " " 1917	130.
" last " " "	125.7
" first " " 1918	123.4
" last " " "	117.9
" first " " 1919	112.5

ABOUT 30 CALIFORNIA GROCERS

Average end of January, 1917	136.8
" " " July, "	128.7
" " " January, 1918	125.8
" " " July, "	115.3
" " " January, 1919	106.0
" " " July, "	105.4
" " " January, 1920	97.5
" " " July, "	100.2
" " " January, 1921	101.7
" " " July, "	95.2
" " " January, 1922	97.4
" " " June, "	95.9

[4] See, for example, the addresses and articles of Mr. F. C. Letts, President of the Western Grocer Company, Chicago.

A percentage of 100 means that outstandings equal one month's sales. Colorado grocers thus were able to reduce their outstandings from 42 days' sales to 34 days' sales between 1916 and 1919, while California grocers have been able to reduce their outstandings since 1917 from 41 days' sales to about 29 days' sales. Even greater decrease of the percentage of outstandings has occurred in some other territories. The lowest average percentage for 1921 was shown by Indiana grocers, their figure being 70.7 per cent, equal to somewhat over 20 days' sales.

Other instances of the shortening of terms might be multiplied, such as the breakdown of the customary settlement date on wholesale hardware sales in the Pennsylvania Dutch territory, or the substitution within the last several years of arrival draft terms on carload shipments of flour into intermountain territory in place of the former terms of 30 to 90 days on open account.

The Movement to Standardize Terms.—A factor of primary importance in the movement to shorten terms is to have all, or at least the larger part of the firms, in a given industry or territory adopt a uniform procedure. In some industries, a certain set of terms gradually comes to be recognized as regular, and is employed by a majority of the firms in the industry. In other lines, however, standardization is accomplished through the trade association in the industry, which will be either national in scope, or else confined to a given territory, according to the industry in question. In rare cases, such as for Huntington, West Virginia, wholesalers in 1914, all firms in a given territory may arrange to have uniform terms. In most instances, however, the group which considers the question is confined to one industry only, and, in fact, cases are found, such as for the Utah-Idaho Wholesale Grocers Association, where terms agreed upon have been discontinued in view of the variety of items which the individual house handles, and

the matter accordingly left entirely to each house independently. Terms are generally agreed upon by those who sell to retailers, and are found much more largely in the case of wholesalers than of manufacturers. As indicated above, the manufacturer usually has far less interest in terms. In some instances, however, terms may be part of standard contracts which are drawn up covering the sale of various articles, or of rules governing trading or dealing therein. This is true of canners' sales of fruits and vegetables, and of sales of various agricultural products, such as California raisins and beans, as well as of open market transactions in commodities like wheat or petroleum, and of sales of raw and manufactured silk.

In no case, however, are the terms formally adopted. They are merely recommended for the use of the membership, and each member is free to do as he sees fit. Accordingly, the terms recommended are of two classes. Certain terms are actually employed by the majority of the firms in the industry. The figures of outstandings already given for wholesale grocers indicate considerable adherence to the standard of 1 per cent 10 days, net 30 days found in the terms of the various associations in that industry. On the other hand, in some lines the terms represent an ideal, and are recommended for what may be termed their moral effect. The National Wholesale Lumber Dealers' Association in 1917, for example, reaffirmed the terms it had recommended in 1902. This was done in spite of the fact that there had gradually come about widespread deviation from them, and in the discussion at the convention one of the principal arguments advanced for their retention was that the ideal which they represented should not be lost sight of. The same general situation exists in the case of the terms prepared by certain retailers' associations, although it is not true of the buying terms which various wholesalers' associations have formulated. The

National Association of Hardware Retailers and several retail lumber dealers' associations in various sections, for example, have adopted order blanks or resolutions calling for deduction of the cash discount on arrival of the merchandise, and commencement of the net period from that time. These terms represent merely their desires, and, at least in the case of hardware, are employed only for a small minority of their purchases.

Regular terms have been found in many industries for years, and terms have been formally recommended in others. Various instances of the latter are recorded in the 90's. The greatest impetus, however, was given after 1910, and a movement in this direction was specially marked during the war period. The movement parallels the growing recognition of the distinctive character of the credit problems which confront the business house, and the fact that competition should be confined to the price and merchandising aspects. The movement of course was aided by the special conditions which obtained during the war period.

Wholesalers' Interest in Terms.—In the movement for standardization of terms, the wholesaler has been a leading factor. This is true, however, only of the so-called "regular" wholesaler. The trading jobber who does not provide a regular link in the distributive chain between manufacturer and retailer pays little attention to terms. Similarly with those wholesalers who actually serve rather as agents of manufacturers than as totally independent entities themselves. Machine tool dealers, for example, in general have few of the characteristics of regular jobbers. They work very closely with their principals, the manufacturers, and often carry only a few samples, instead of a large stock from which they can make immediate delivery. Hence they do not have the same interest in the terms on which they buy as do, say, wholesalers of hardware. In

fact, the regular wholesaler has a distinctive series of problems with respect to terms, and the terms which he employs will therefore be considered as a unit. These problems have been perhaps most thoroughly considered and fully worked out in the grocery and hardware lines. The discussion accordingly will be confined largely to, and the illustrations drawn from them, although the principles are equally applicable to other branches of wholesale trade.

The wholesaler considers both the terms upon which he buys and the terms upon which he sells. In those lines in which selling terms have been recommended, a special committee of the trade association is usually charged with their formulation, and reports annually to the convention. Frequently its activities may also embrace other phases of credit work, such as promptness of collections, respecting the discount period by retailers, etc. From 1908-1910 the National Wholesale Grocers' Association considered the question of terms of sale on a national basis, but after 1910 left the matter entirely to the judgment of the individual house. It is difficult, of course, in view of the wide variety of items handled in this and many other jobbing lines, and the considerable differences between the business of the individual houses, as well as the great expanse of the country, to lay down any uniform terms applicable under any and all conditions. However, since 1910 at least 12 state and territorial associations in the grocery line have recommended terms to their membership, and seem to have met with considerable success. The differences in terms between the several associations relate largely to the terms on certain individual items in the classifications which they prepare, so that in the line as a whole regular terms may be said to be 1 per cent 10 days, net 30 days. The formal recommendation of terms has been supplemented in most cases by the preparation of monthly reports of outstandings of the kind referred to above.

In the case of some other leading wholesale lines, little consideration is given to the classification of individual items, but attention is concentrated rather upon the general terms. Where this is done, the problem is simplified greatly, at least as far as the preparation of formal terms is concerned. Accordingly, too, it is possible to prepare terms for use on a national scale, and this has always been done, for example, by the National Hardware Association. In that industry, however, territorial terms have also been recommended by the southern and Texas associations. In other lines practice differs. The Southern Wholesale Dry Goods Association has recommended terms applicable to its section, but the National Wholesale Dry Goods Association, whose membership is confined more largely to the north, has never formally recommended terms. It has, however, had its secretary compile the terms in use by the membership, and the same is true of other bodies, such as the National Wholesale Jewelers' Association.

Characteristic only of wholesalers as contrasted with manufacturers, is activity with respect to the terms upon which merchandise is purchased, in particular the discounts allowed. The leading associations have had committees for many years whose primary interest is in this matter. The committee of the National Wholesale Grocers' Association dates back to 1907, the year after the association was founded. The officers of the National Hardware Association for many years gave attention to the subject, and the importance of the question at one time in the 90's was indicated above. Since about 1910, special committees of the association have been appointed as occasion has demanded. The several divisions of the National Wholesale Dry Goods Association have regularly communicated with manufacturers whose discounts were unsatisfactory, while for several years the Southern Wholesale Dry Goods Association had a regular committee to deal with the matter

and to seek to obtain uniform terms on all items which the members purchased. On the other hand, in the boot and shoe industry, where the manufacturers distribute about 40 per cent of the output direct to retailers, in part through their own jobbing houses, and where certain of them also distribute goods from other factories as well as their own, activity with respect to buying terms has been confined largely to rubber and tennis footwear, which is produced by different manufacturers.

A good idea of the scope of the activities of such bodies along these lines is afforded by the National Wholesale Grocers' Association. In 1915 the chairman of the association's Discount for Cash Committee stated that the subject of increased discount for cash had been submitted to every known firm or corporation soliciting the wholesale grocery trade. Not only have the association's activities covered a wide field, but they have included smaller as well as greater changes in discounts. To take a couple of illustrations at random, as a result of their activities, sugar refiners in 1911, in general, increased their discount from 1 per cent to 2 per cent, while in 1919 the rice contract called for a 1 per cent discount in place of the 1/2 per cent previously allowed. In the course of its work, the Discount for Cash Committee has at various times also called attention to the need for members to respect the cash discount period.

Buying and Selling Terms of Wholesalers.—But why all this interest on the part of the wholesaler in terms? The answer is not far to seek. On the one hand, it relates to the question of pricing his goods for resale; on the other hand, to the question of the profits which he receives.

The point of primary importance with respect to the terms upon which he purchases is the size of the cash discount which he receives. While the net terms to the retailer are based on the retailer's marketing period, and a large part of the retailers take the full net terms, the wholesaler

is presumed to bear the financing burden himself, and to pay cash for his merchandise. At the same time that he thus discounts his bills, he grants time to the retailer to whom he sells. The length of the net terms which he grants depends upon the size of the cash discount which he receives. This is not true in the sense that he disposes of the goods as soon as sold, so that, say, a 2 per cent discount which he receives corresponds to the net 60 days which the buyer receives, because he actually carries the merchandise himself for some time. It means rather that when he does this he can fix the price to the retailer on the basis of the net price which he himself is quoted. This was definitely assigned as a partial reason for the hardware wholesalers' opposition to the decrease in the discount on bolts and nuts from 2 per cent to 1 per cent.

The above discussion assumes that buying and selling terms are the same. This is not, however, by any means universally conceded, and there is a great mass of controversy about the relation between the two. But at least one point of agreement exists. A cardinal principle, it is held, is that the discount allowed on sales should never be greater than the discount which is received on purchases. Further than this, however, there are two theories. One is that the discounts in the two cases should be equal. This theory is held in various lines, such as hardware. On the other hand, in certain lines a greater discount is desired on purchases than is received on sales. Take the grocery business, for instance. The National Wholesale Grocers' Association desires to obtain a 2 per cent discount, although standard selling terms are 1 per cent 10 days, net 30 days. Approximately 50 per cent of retail grocers discount their bills, and accordingly there is a differential of 1 1/2 per cent accruing to the wholesaler. One-half per cent of this presumably offsets the credit work and credit risk and the interest involved in carrying the accounts which do not

discount, leaving a profit of 1 per cent. It is generally held that firms in the grocery line which do not take advantage of the cash discount are not in position to make a net return on the funds invested. On the other hand, it should be noted that certain wholesale grocers believe that the average discounts received are only about 1 1/2 per cent and that the average discounts granted are about the same. In the hardware industry, where the theory of equalization obtains, a differential (over 1 per cent, as only 40 to 50 per cent of the accounts are discounted) [5] is likewise obtained but this should theoretically be entirely offset by the credit risk and credit work, as well as the interest involved in carrying those accounts which do not discount.

Intimately related to the question just considered, is the question of the relation which the amount of the discount received by the wholesaler bears to the net profits which he makes. It is often stated that the amount of the discount equals the net profits of the wholesaler, or at least a considerable part of them.[6] In some cases, perhaps, overemphasis has been placed on the importance of the discount in this connection, though it is true that the wholesaler necessarily works upon a narrow margin of profit. Where the size of the discount from the manufacturer is increased, say, 1/2 per cent, wholesalers are generally urged not to push competition so far as to pass the discount on to the retailers, but instead to add it to their own profits. Little exact information as to the amount of the margin of net

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[5] Some information as to the promptness with which hardware retailers pay their bills is contained in an address advocating the use of the trade acceptance, read by Mr. R. H. Treman at the 1916 Convention of the National Hardware Association and reproduced in the pamphlet entitled "Trade Acceptances," What They Are and How They Are Used," prepared for the American Acceptance Council, and published October 1, 1919.

[6] See an address of Mr. Geo. E. Lichty on "Discount for Cash; Why is it to Manufacturers' Best Interest," before the National Wholesale Grocers' Association, 1916, Proceedings, pp. 192-196.

profit is available, but in the hardware industry in 1919, for example, it was stated that the amount in that industry was usually estimated at 2 1/2 to 3 1/2 per cent of net sales, and was higher during the war, although for a longer period of years it averaged well under 2 per cent.

PART II

THE TRADE ACCEPTANCE QUESTION

CHAPTER VII

THE TRADE ACCEPTANCE MOVEMENT IN THE UNITED STATES

Part II has as its central purpose a critical study of the suggestions which have been made for reforming the commercial credit system of the United States by advocates of the trade acceptance. This involves a consideration of the elements of strength and weakness in both systems, and raises a host of questions. Before drawing a contrast between the two systems, and considering the desirability of each, however, it will be desirable to obtain a more complete and unified view of the status and extent of use of the trade acceptance than has been afforded by the previous discussion. It will likewise be desirable to consider the growth of the instrument since its inception, as this will also throw considerable light upon the questions of principle which will be considered later. The present chapter will therefore be devoted to a consideration of the trade acceptance movement, and will be followed by a chapter giving the results of the surveys which have been made of the use of the trade acceptance.

Meaning of the Trade Acceptance.—The trade acceptance has been variously defined. Among the best definitions is that of Mr. R. H. Treman, as follows:[1]

> A trade acceptance is a time draft drawn by the seller of merchandise on the buyer for the purchase price of the goods and accepted by the buyer, payable on a certain date, at a certain place designated on its face.

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[1] "Trade Acceptances, What They Are and How They Are Used," published by the American Acceptance Council, October 1, 1919.

A shorter, but substantially similar definition, stressing the point of view of the buyer-acceptor, is stated by Mr. Oliver J. Sands, as follows:[2]

An acceptance is an acknowledgment of the receipt of goods[3] and a promise to pay for the same at a fixed date and place.

Both of these definitions, it will be observed, include the same general features, which serve to distinguish the trade acceptance from other kinds of paper. Fundamentally it is an order to pay which is accepted by the drawee. This feature serves to give the paper its distinctive form. Supplementary to this, but no less essential, is the fact that it arises out of a specific merchandise transaction or series of transactions, and that this fact, although not the details, is indicated on its face. This serves to make the paper a *trade* acceptance, instead of merely an acceptance. These two features mark the difference between the trade acceptance and the ordinary promissory note, which is merely a promise to pay, and totally unrelated to any specific transactions, giving no inkling of the purpose for which the credit is extended. Added to these two features are others which serve to establish the negotiable character of the instrument, etc.

Various forms of trade acceptance have been devised by different agencies and organizations, and are now in use. Among the most widespread are those of the American Trade Acceptance Council (later the American Acceptance Council) and the National Association of Credit Men.

The Trade Acceptance Before and After the Civil War.—The trade acceptance is by no means a recent innovation. It was already in considerable use, and, together with the promissory note, formed the basis of the commercial credit system prior to the Civil War. This conflict marked the

[2] Presented at the meeting of the American Trade Acceptance Council at New York on November 23, 1917.

[3] By implication only.

beginning of a revolution in credit practice. The excessive issues of greenbacks helped to make uncertain the value of credit instruments which ran for any considerable length of time, while the market for merchandise widened, and changed from a primarily local one to one on a more national scale. Sellers, therefore, endeavored to bring business as nearly as possible to a cash basis, and were aided by the fact that the demand for goods tended to outrun the supply. In the 80's there developed the practice of selling goods by sample, instead of by personal selection from an accumulated stock. As a result, the doctrine of "implied warranties," as it has been termed, arose, and the risk and responsibility of delivery was laid upon the seller. This led to the use of the open account, which, in turn, led sellers to offer cash discounts in order to stimulate payment. Gradually, the cash-discount open-account system, as we know it to-day, grew up and was extended to cover almost all parts of the commercial credit field.

The Trade Acceptance and the Federal Reserve Act.—The history of the recent trade acceptance movement in the United States falls naturally into 3 stages: (1) a period of gradual progress, from the passage of the Federal Reserve Act until the autumn of 1917; (2) a war period in which an active campaign was carried on to extend the use of the acceptance, under the auspices of a special organization, the American Trade Acceptance Council, formed at the opening of the period; and (3) a post-war period, dating from about the end of 1919, at the opening of which friends and foes alike called attention to abuses in trade acceptance practice by some users of the instrument, and during which the American Acceptance Council (successor to the American Trade Acceptance Council) shifted its chief attention to the bankers' acceptance.

Just as the inauguration of the National Banking System

during the Civil War marked the beginning of a new epoch in American banking, so the passage of the Federal Reserve Act also marked the begining of another epoch. The Act, too, contained certain provisions which were highly significant from a credit point of view. Among these, none is more important for the present question than the requirements which the Federal Reserve System lays down as to paper which it will accept for rediscount or purchase—in other words, its definition of "eligible" paper. This definition obviously will largely determine the type of paper which is created, because business men will create just such paper in order that it may possess the rediscount privilege. The definition might therefore profoundly influence American mercantile credit practice if attempt were made to introduce innovations into the existing system. This question, Willis tells us,[4] was specifically considered when the Act was being framed, and a proposal was made to confine the eligible and discountable paper to that which bore two names, those of buyer and seller, but this plan was rejected. The Act itself is not specific, but after admitting promissory notes as well as drafts, gives the Federal Reserve Board wide latitude in prescribing precisely what paper is eligible. Section 13 of the Federal Reserve Act reads in part as follows:

> . . . Any Federal Reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this act.

This applies to paper which a Federal Reserve Bank may rediscount for its member banks. Supplementary to this

[4] *The Federal Reserve* (New York, 1915), p. 186.

is Section 14, which in part refers to paper which a Federal Reserve Bank may purchase in the open market, as follows:

> Any Federal Reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations or individuals, . . . bills of exchange of the kinds and maturities by this act made eligible for rediscount, with or without the endorsement of a member bank.

It is thus evident that bills of exchange, or trade acceptances, have a wider access to the Federal Reserve Banks than do notes, as the latter may merely be rediscounted and are not eligible for purchase in the open market. Although the Act as originally framed included notes, and thus placed open market transactions upon the same basis as discount transactions, this provision was specifically omitted after due consideration.[5] It was held that the purchase of such single name paper might expose the Federal Reserve Banks to some hazard, for they would not be in as good a position to judge the paper as the member banks themselves, and therefore might from time to time take paper which was not thoroughly satisfactory. While the paper would be protected by the endorsement of a member bank in the case of a discount, this would not be required in an open market transaction, and hence this protection would be lacking.

Work of the Federal Reserve Board.—In accordance with the provisions of sections 13 and 14, the Federal Reserve Board proceeded in due course to prepare and issue a regulation defining the character of paper eligible. In February, 1914, the Reserve Bank Organization Committee requested various clearing houses, chambers of commerce and other associations to submit definitions of

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[5] Willis, p. 184.

"commercial paper."[6] The replies received were exceedingly diverse. While some bodies, such as the New York Clearing House Association, favored two name paper, others, such as the Merchants Association of New York, urged that single name paper be accepted for rediscount. The Board accordingly declared in Circular No. 13, dated November 10, 1914 (as well as previously in Circular No. 8, dated October 17, 1914) that "it would be inadvisable at this time to issue regulations placing a narrow or restricted interpretation upon the section defining the character of paper eligible for discount," and decided "to admit both forms to rediscount with the Federal Reserve Banks."

Whereas under this circular both classes of paper were admitted to rediscount at Federal Reserve Banks without distinguishing between them, the following year a separate class of trade acceptance was recognized, and a special regulation (P, Series of 1915, dated July 15, 1915) was issued governing its rediscount. Circular No. 16, Series of 1915, which accompanied the regulation, employed the term "trade acceptances," and explained that it was to deal with them as a distinct class of commercial paper,

> for which the Board is ready to approve the establishment of a discount rate somewhat lower than that applicable to other commercial paper. . . . In promulgating it, the Board expresses the belief that it will considerably enlarge the scope of service of Federal Reserve Banks, and, incidentally, assist in developing a class of double-name paper, which has shown itself in so many countries a desirable form of investment and an important factor in modern commercial banking systems.

In accordance therewith, separate rates for trade acceptances were inaugurated at the several Federal Reserve Banks, commencing with the Federal Reserve Bank of New

[6] E. E. Agger, "The Commercial Paper Debate," *Journal of Political Economy*, Vol. 22, 1914. O. M. W. Sprague, "Commercial Paper and the Federal Reserve Banks," ibid., contains an excellent discussion of principles.

York on July 22. The Chicago and Minneapolis banks, however, had made no distinction by January 1, 1916, and the same rates remained in force in these districts as had been inaugurated for all classes of paper in November, 1914. These two banks only inaugurated special rates in November and March, 1916, respectively. The rates established on trade acceptances generally were from 1/2 to 1 per cent below those on regular paper, and thus gave them a preferential rate. When war financing commenced in 1917, the rates on trade acceptances in some districts were the same as on paper secured by Government war obligations. At the middle of 1917 this was the case with 6 of the 12 banks, but on January 1, 1918, it was true of only 3 banks.

Efforts were actively made by the Board and the Federal Reserve Banks to further the use of the trade acceptance. Several of the Board members, as well as the secretary, addressed trade associations and other bodies of business men and pointed out the advantages which, it was believed, would accrue from the introduction of the new instrument.[7] Several of the members of the board, notably Mr. P. M. Warburg, were strong advocates of it, as were also certain of the leading officers of some of the individual Federal Reserve Banks, notably Mr. D. C. Wills, Federal Reserve Agent at Cleveland, and Mr. R. H. Treman, Deputy Governor of the Federal Reserve Bank of New York.[8] A committee of Federal Reserve Agents, consisting of Messrs. Wills, Curtiss (Boston), Jay (New York) and Ramsey (Dallas) reported to a conference of Federal Reserve Agents held in December, 1916, that the development of the trade acceptance plan "should be part of any general publicity scheme, if such action should be taken by the

[7] For example, address of H. Parker Willis before the Second National Silk Convention at Paterson, N. J., November 22, 1916.

[8] In addition to Mr. Treman's other writings, reference should be made to his pamphlet entitled "Trade Acceptances" (August, 1917).

conference and approved by the Board," but this was not done. The committee also recommended that each Federal Reserve Bank secure standard trade acceptance forms and supply them to member banks, accompanied by a circular explaining their advantages, and this step was taken by some of the banks.[9]

The Trade Acceptance Movement—The National Association of Credit Men.—During what has been termed above the first period of trade acceptance history, the movement, however, centered around the activities of the National Association of Credit Men. Certain of its officers had from the outset displayed an active interest in the acceptance, and had already urged Congress at the time the Federal Reserve Act was being framed, to give preference to the accepted draft. The Association for some years has adopted resolutions at its annual conventions endorsing the trade acceptance and favoring its wide use. It furthermore early adopted the policy of actively bringing the acceptance to the attention of business houses and of endeavoring to enlarge the circle of users. At the close of 1915, it was officially stated that the Association had instituted "a campaign with a view to persuading the business interests of the country to use the trade acceptance in place of open book accounts." In framing its plan, it consulted with various authorities, such as the vice-chairman of the Federal Trade Commission and the secretary of the Federal Reserve Board, and asked the Federal Reserve Bank of New York to recommend a form of trade acceptance. In addition to considering the acceptance at its own annual conventions, the Association held a number

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[9] "What are the advantages of trade acceptances? To the seller? To the purchaser? To the banker?" Federal Reserve Bank of Minneapolis, January, 1917.

John U. Calkins, Deputy Governor, Federal Reserve Bank of San Francisco, address at a meeting of Tacoma Credit Men's Association, June 2, 1916.

of special conferences devoted exclusively to the instrument, such as in New York, March 9, 1917, and held several in coöperation with other more or less closely related bodies, such as at Buffalo, March 11, 1918. The monthly Bulletin of the Association (succeeded April, 1920, by the *Credit Monthly*), regularly contained items of interest, frequently giving the experience of firms which had used the acceptance, and often grouping such items under some distinctive heading, such as Trade Acceptance Brevities or Trade Acceptance Department. Officials of the Association addressed trade associations and other bodies of business men, while literature was prepared and distributed. In March, 1917, a Trade Acceptance Bureau was installed in the national offices of the Association at New York, whose particular function it was to prepare and distribute literature relative to the instrument, and serve as a source of information concerning it. It was active along these lines until the Spring of 1919, when the American Acceptance Council was created.

During the early years appeals to the business man to use the trade acceptance were based upon the superior advantages which it was claimed the instrument possessed. With the advent of the war, this was re-enforced by an appeal to patriotism. The resolutions adopted at the 1918 convention emphasized the service which it was believed the acceptance might render during such a period of stress:

Resolved, That the National Association of Credit Men, in convention assembled, records again its firm belief in the Trade Acceptance, as a credit instrument superior to the open book account in utility, protection and value, and furnishing the basis of a more liquid and flexible medium of exchange in mercantile transactions; furthermore, releasing capital that could be utilized to advantage in normal time and that may become pressing necessity under war conditions, when the credit functions of the nation will receive their severest test; nothing should be left undone or

neglected that may contribute to the nation's powers for the winning of a victory in the struggle for world independence, and the trade acceptance is clearly an instrument that will help to that end.

Whereas, it is of the utmost importance at this critical junction in our financial affairs that we make full use of every legitimate credit instrument, and

Whereas, in the inevitable expansion of credit incident to the growing demands of war, it is of the utmost importance that we create not only credit instruments that are eligible for rediscount at Federal Reserve Banks, but instruments of the widest marketability, qualities which, as leading financial authorities state, are present in the highest degree in acceptances:

***Be it Resolved,* That the National Association of Credit Men continue to extend its powers to bring about a better understanding of the trade acceptance and to advise, so far as may be, its use in the various lines of trade as contemplated in the Federal Reserve Act, as interpreted by the Federal Reserve Board.**

The American Trade Acceptance Council.—With the advent of the war, the acceptance movement entered upon a second stage, during which a campaign, more active and more highly organized than previously, was carried on to extend its use. The initial step was taken at the War Convention of American Business held in Atlantic City, September 17-21, 1917, under the joint auspices of the Chamber of Commerce of the United States, the American Bankers' Association and the National Association of Credit Men. The acceptance was discussed at the convention and a joint committee on trade acceptances was appointed, consisting of three members from each association, to "consider the development of the trade acceptance as a device for strengthening and mobilizing commercial credit, and to serve as a permanent center for the direction of a nation-wide educational campaign in the interest of the Trade Acceptance." At a subsequent meeting in New York on October 9th, a permanent organization was ef-

fected, which was to be known as the American Trade Acceptance Council. The following were the principal officers: Mr. Lewis E. Pierson, Chairman of the Board, Irving National Bank, New York, Chairman; Mr. R. H. Treman, Deputy Governor, Federal Reserve Bank of New York, Vice-Chairman; Mr. J. H. Tregoe, Secretary-Treasurer, National Association of Credit Men, Secretary; and Mr. W. W. Orr, Assistant Secretary-Treasurer of the Association, Assistant Secretary. Mr. Jerome Thralls, secretary of the clearing house and later of the national bank sections of the American Bankers' Association, was shortly also appointed Assistant Secretary. Several committees were appointed, and regular offices opened in the Woolworth Building, New York. Somewhat later the Council was enlarged to include representatives from the National Association of Manufacturers.

On the whole, the work of the American Trade Acceptance Council represented an intensive effort along the lines already laid out by the National Association of Credit Men.[10] The Council became the center of the movement. It developed standard trade acceptance forms, which were approved by the Federal Reserve Board, the General Counsel of the American Bankers' Association and other authorities. It held frequent meetings, the New York members gathering weekly. It held a regular annual convention at Chicago on June 17, 1918, the day before the convention of the National Association of Credit Men, after having held several conferences at New York and Philadelphia. It was said that over 800 were in attendance at the Chicago Convention and no less than 600 were in the room at any one time. In perfecting its organization, state trade acceptance councils or committees were formed in

[10] The Report of the Trade Acceptance Committee of the American Bankers' Association at the 1918 convention described fully the work of the Council.

various states, for example, Michigan in March, 1918, and Maryland in April, 1918, and local councils were formed in various centers, being in operation by the fall of 1918 at least in Rochester, Milwaukee and Indianapolis. The Council had a speakers' bureau, which was active in addressing trade organizations and other bodies with a view to having them endorse the trade acceptance, and regular sets of resolutions were prepared at the close of 1917, for the use of these associations. The council undertook to furnish material to its committees, to financial and trade periodicals and to the general press. In addition, it published a series of pamphlets,[11] and Mr. Thralls issued weekly from the American Bankers' Association offices a Trade Acceptance Service Bulletin which was distributed to not only 700 banker committeemen, but, in addition, to 1,000 others representing various lines of business and the press. It also engaged in several other allied lines of work, such as advocating that savings bank investment laws be amended so as to permit the purchase of prime trade acceptances, and meeting with a committee which considered the use of acceptances in cotton financing at New York in the Spring of 1918.

Work of the Bankers.—By means of the American Trade Acceptance Council, the advocates of the trade acceptance succeeded in enlisting the aid not only of the Chamber of Commerce, but also of the American Bankers' Association. While several bankers, notably Mr. C. W. Dupuis of Cincinnati and Mr. George Woodruff of Joliet, Illinois, in addition to those already mentioned, had been enthusiastic advocates of the trade acceptance, and a number of banks, particularly in the larger centers, such as New York, had

[11] These include:
"Trade Acceptances, What They Are and How They Are Used," by Robert H. Treman.
"Trade Acceptance Catechism," by J. T. Holdsworth.

prepared and distributed pamphlets explaining its use,[12] the bankers on the whole had held back. When the question was first considered, Mr. James B. Forgan, president and later chairman of the First National Bank of Chicago, had been a strong upholder of the prevailing cash discount-open account system as opposed to the trade acceptance, as was also the late Mr. James G. Cannon, president of the Fourth National Bank of New York. Mr. W. W. Orr in 1917 wrote as follows:

> We have met with much difficulty in the attitude of some banks, particularly those in smaller centers, some of them indifferent and without information as to the acceptance and its advantages for them (the banks), over the ordinary promissory note, and others definitely opposed to the new system.

Mr. Beverly D. Harris, quoting Mr. Orr at the American Bankers' Association Convention in 1917, stated that this was borne out by his own experience, adding:

> I have a very strong conviction that there is a great deal of confusion of thought, indifference, apathy, lack of information and lack of conviction among bankers in general, and that at best very lukewarm support is being given.

As already noted, the American Bankers' Association at its 1917 convention appointed a trade acceptance committee which co-operated in the formation of the American Trade Acceptance Council. Mr. Thralls took charge of the publicity work among the banking community. An organization was developed. Three bankers were appointed by the state bankers' association in each state, and in many cases committees were also appointed for groups or other subdivisions of these associations, and chairmen

[12] See the National City Bank of New York's reprints of several addresses by Mr. B. D. Harris, and the Irving National Bank of New York's series of pamphlets, largely reprints of addresses by Mr. Pierson, as well as the individual pamphlets on Trade Acceptances of many of the leading banks.

for counties. The president of the American Institute of Banking upon request appointed a committee of three or more junior officers in each Federal Reserve bank and branch city, to which detail problems could be submitted for consideration and report. By December, 1917, 22 associations had already appointed trade acceptance committees and had agreed to furnish 150 speakers, while by April, 1918, there were committees in every state, as well as in all Federal Reserve bank and branch centers, and there was a special American Institute of Banking Committee of three members. An effort was made to put the subject on the program at the annual conventions of the State bankers' associations. In May, 1918, it was stated that this had been done in the case of 29 associations which were to hold conventions, while it was later reported that 34 associations had adopted resolutions in favor of the trade acceptance by the fall of that year. The mechanism thus created had the further advantage of providing expert advice on two technical questions which were of importance: (1) provision for the most economical and efficient method of handling acceptances in banks and business houses and (2) evolution of a satisfactory schedule of service, exchange and collection charges. The monthly Journal of the Association also frequently carried items on the trade acceptance, and the association's committee on acceptances was charged with preparing some literature.

The American Acceptance Council.—In December, 1918, plans were made to reorganize the American Trade Acceptance Council. At a meeting in New York on January 21, 1919, which was attended by over 250 leading bankers and business men from all parts of the country, the reorganization was effected and the Council became the American Acceptance Council. According to its President, the purpose was to broaden the scope and character of the work, and identify it with a large percentage of the

business and financial interests of the country, instead of confining it to the relatively small group which had sponsored and financed the initial movement. To the program of the American Trade Acceptance Council was added the bankers' acceptance and the extension of acceptances into the foreign as well as the domestic field. At the outset, it had 111 active members. This figure had increased by December 4, 1919, to about 200 (exclusive of 16 service members), and by October 1, 1921, to 243 (exclusive of 43 service members). Its appeal has been, however, primarily to the banking community, for of the 200, only 14 were associations and only 58 were commercial houses, and of the 243, only 9 were trade and bankers' associations and only 27 were commercial concerns, the remainder being either banks, trust companies or private bankers. The first set of officers was as follows: Mr. Warburg, Chairman of the Executive Committee; Mr. Pierson, President; Mr. Arthur Reynolds, Vice-President of the Continental and Commercial National Bank of Chicago, Vice-President; Mr. Thralls, Secretary; Mr. Percy H. Johnston, President of the Chemical National Bank of New York, Treasurer; and Mr. R. H. Bean, Executive Secretary. These officers have changed somewhat from year to year, and Mr. Warburg is now President; Mr. E. C. Wagner, Vice-President of the Discount Corporation of New York, Chairman of the Executive Committee; Mr. Fred I. Kent, Vice-President of the Bankers' Trust Company, of New York, Vice-President; Mr. Johnston, Treasurer; and Mr. Bean, Secretary.

It will be observed that the Council was organized along the same general lines as its predecessor, and its methods were also similar. It held a regular annual convention at Detroit on June 9, 1919, the day preceding the convention of the National Association of Credit Men, and has since held annual meetings of the Board of Representatives at the opening of December, 1920 and 1921. At each meeting,

the trade acceptance has been considered to some extent. The Council has prepared a regular series of pamphlets on both bankers and trade acceptances,[13] and since January, 1920, has published an *Acceptance Bulletin* monthly. By October 20, 1921, it had distributed 400,000 pieces of literature on the trade acceptance and had engaged in correspondence with business houses and associations, furnishing them with information as to the use of the instrument and the proper methods to be followed in introducing the system. It has also had a regular speakers' bureau. By March, 1919, three local associations had been organized at Baltimore, Joliet and Rochester, and the following month plans were well under way for similar associations in Cleveland, Cincinnati and Newark. In October, 1921, it was stated that the Council practically had a branch in Cleveland, in the form of the Cleveland Bank and Trade Acceptance Council, which was part of the Cleveland Chamber of Commerce.

Symptomatic of general interest in the trade acceptance was the founding in May, 1918, of a publication devoted exclusively to it, called the *Trade Acceptance Journal*, and published by the National Trade Acceptance Bureau, Inc., of New York City. Mr. W. W. Wilmot, who had previously been connected with the National Association of Credit Men, was editor. The scope of the publication was later broadened and the title was changed to *American Business and National Acceptance Journal*, at the same time that the editorial staff was changed. Mr. W. L. Sparling is the present editor.

Trade Associations and the Trade Acceptance.—But, after all, the business man was the determining factor in

[13] The list of publications on the trade acceptance includes:
"Elements of Trade Acceptance Practice," by Robert H. Bean.
"Abuses to be Avoided in Trade Acceptance Practice," by David C. Wills.

deciding whether or not the acceptance should be employed. As the *Federal Reserve Bulletin* (Review of the Month, September 1, 1917, issue) said: "The problem must be solved by the business man. Each trade must find a solution suitable to its own requirements." It is therefore necessary to retrace our steps and to consider the question, not from the point of view of the organization of the campaign for the use of the trade acceptance, but from the point of view of those to whom the advocates of the instrument appealed.

A considerable part of the efforts of the organizations cited above were directed to, and bore fruit through, trade association channels. As already indicated, addresses were delivered at conventions, and an active effort was made to obtain the endorsement of the instrument by the associations. Many of the trade bodies themselves were actively interested in the acceptance, and in seeing whether, and if so, how, this previously little-known instrument might be of service to them. Added to their natural interest was the appeal made in 1917 on patriotic grounds. The usual procedure for these associations was to appoint a special trade acceptance committee, generally distinct from the ordinary terms or discount committee, to consider the matter and report at the following convention, at which some further discussion was often had. Where opinion was favorable, a resolution was then passed endorsing the acceptance. This work with trade associations was especially pronounced from about 1917, until the middle of 1919. By this time the element of novelty had worn off, as the question had been widely discussed, and some general consensus of opinion had developed in most of the associations as to the applicability and desirability of the acceptance in their line. Likewise, all of the major associations had been approached by the advocates of the acceptance.

Illustrative of the general work along these lines in the

trade associations were the activities in the hardware industry. The subject was brought prominently before the industry by Mr. R. H. Treman in an address before a joint session of the American Hardware Manufacturers' Association and the National Hardware Association at Atlantic City on October 18, 1916. During the following year the secretary of the latter association issued considerable literature on the acceptance, but he stated in his report at the 1917 convention that other trade bodies were putting it into operation more rapidly than were members of his own organization. The executive committee in its report also remarked that it believed the educational period had about passed. In some respects the work fitted into that previously carried on by the association, especially the part which concerned the observance by retailers of the terms quoted, but this apparently was not strong enough to overcome the usual wholesaler's objections to the use of the instrument. At the 1918 convention, the use of terms calling for 2 per cent 10 days, 1 per cent 30 days or 1 per cent 10th proximo, net 60 days trade acceptance was discussed, but at the 1921 convention only 7 or 8 hands were raised in response to a question as to how many of those present used the trade acceptance. In the South, however, it has apparently fared better. In September, 1918, the matter was discussed at the Southern association's convention at Atlanta, and various groups agreed to use it. Quite a few members, especially in the South, had already employed terms of 2 per cent 10 days, net 30 days or 60 days trade acceptance, while the Texas Association in May of that year had favored these terms, and they were subsequently used in the south of the state.

Opposition to the Trade Acceptance.—At no time during the course of the trade acceptance movement was opposition lacking. This opposition dates back to the days when the Federal Reserve Act was being framed. In many

lines there was apathy or skepticism; in some, active opposition. Gradually this opposition crystallized in the leading wholesale lines. Although efforts had been made to enlist their support, the associations in these lines remained unconverted and in some cases definitely opposed the trade acceptance. Most prominent among such lines was wholesale groceries. Although the matter was presented to the National Wholesale Grocers' Association by no less an authority than Mr. Pierson (at the convention in Cleveland on June 14, 1918), the organization remained strongly opposed to the trade acceptance. At both this and the next convention, the association's Trade Acceptance Committee, under the chairmanship of Mr. Sylvan L. Stix of Seeman Brothers, New York, presented an adverse report, holding that the trade acceptance would tend to lengthen terms and increase credit risks, and hence would be a step backward in their line. A resolution to this effect was approved by the Executive Committee in 1918, and similar resolutions were passed in the spring of that year by eight territorial associations and the executive committees of another territorial association and the National Coffee Roasters' Association. The wholesale grocers have been among the staunchest upholders of the cash discount in the mercantile community, and have had a committee dealing with discounts on their purchases for many years. Other wholesale lines displayed less pronounced opposition, but some of them joined actively to resist the movement. Prominent among the leaders of the opposition was Mr. Wallace D. Simmons, President of the Simmons Hardware Company of St. Louis.[14]

A second group of opponents of the trade acceptance

[14] See an address on "The Importance of the Cash Discount in the American Credit System," before the New York Wholesale Grocers' Association at New York, January 15, 1919; also an address on "The American Credit System," before the Southern Wholesale Grocers' Association at New Orleans, May 8, 1919.

centered around Messrs. George H. Paine and John S. Jenks, Jr., of Philadelphia. These two gentlemen had been interested in American credit practice and Mr. Paine had followed the plan of reprinting and distributing articles and addresses which he believed would be of interest to the banking and business community. As a result of their studies, by the middle of 1916, a modified form of acceptance had been devised, termed the "Jenks bill," which was designed to meet certain of the objections raised to the regular trade acceptance. At the opening of 1917, it was brought forward more definitely but its career was cut short by the advent of the war.[15] Messrs. Paine and Jenks have been in active correspondence with business men for years as to the principles underlying the credit system, and on several occasions have endeavored to obtain replies to a systematic list of questions as to the theory underlying the trade acceptance. Since the close of the war they have not brought the Jenks Bill forward again, but have contented themselves instead with continuing their opposition to the trade acceptance.

The growth of the opposition to the trade acceptance is well illustrated in the situation which developed in the Chamber of Commerce of the United States. As will be recalled, this organization was one of the three which co-operated in 1917, in the movement leading toward the formation of the American Trade Acceptance Council. A trade acceptance committee was formed, and trade acceptances were on the program at the annual meeting at Chicago in June, 1918, at which considerable discussion ensued. The question was raised that the Chamber was not officially committed to the trade acceptance and in accordance with its usual procedure could not be so committed without a referendum. A special committee of 14

[15] For a full description of the bill, see *Journal of the American Bankers Association*, August, 1916, pp. 107 ff.

members, composed of Messrs. Pierson, Hayes, Hirsch, Holdsworth, Hooker, Jenks, Nones, Simmons, Stix, Sullivan, Tregoe, Treman, Wills and Woodruff, accordingly studied the subject with a view to submitting a report to the Board of Directors, which might in turn be sent to the entire membership in the form of a referendum. The committee contained ten members who had been more or less identified with the American Trade Acceptance Council, while the remaining four had been strong opponents of the acceptance. It could not find common ground for a unanimous report, and accordingly submitted separate majority and minority reports to the Board of Directors. On October 1, 1919, this body voted that the reports should be edited and placed in the form of arguments in favor of and opposed to trade acceptances, and then distributed to the membership of the Chamber for their information, which was done. No referendum was held.

Meanwhile, there was also some opposition in the ranks of those organizations which had taken the lead in advocating the use of the trade acceptance. At meetings of the American Trade Acceptance Council, opponents of the instrument were in attendance and presented their ideas. As time went on, credit men who were not in favor of the trade acceptance gradually gave expression to their views, and these made their appearance in the *Bulletin of the National Association of Credit Men.* Among the leaders here was Mr. J. H. Scales, Treasurer of the Belknap Hardware and Manufacturing Company of Louisville. All in all, however, where active support was not found within the association, apathy was much more pronounced than definite opposition.

The Post-War Period.—There was undoubtedly a considerable impetus given to the use of the trade acceptance during the war period. The movement was prosecuted much more vigorously, while there would also naturally be

greater attention paid to it at a time when financial and credit problems were intensified. This was the period during which some firms created the "Liberty acceptance." On the other hand, the opponents of the instrument actively combated the patriotic appeal, and in the latter part of 1918 received a letter from Governor Harding of the Federal Reserve Board in which he said:

> The Board has no desire to influence anyone to use the trade acceptance against his will and deprecates the use of the word "patriotism" in this connection.

With the close of the war, the movement gradually lost momentum, as the period of stress was over, and, moreover, as each of the leading industries had been thoroughly canvassed. By about the close of 1919, these conditions had become thoroughly established and a third period in trade acceptance history appeared, in which the use of the acceptance became more a matter of course. Mr. Orr has characterized it as follows in a letter to the writer:

> Now that the novelty of the acceptance has worn off it is not so commonly a subject of discussion. . . . It has just become a natural way to handle certain accounts and no credit man thinks he is doing anything out of the usual to ask for acceptances. Therefore, he doesn't talk so much about it.

The new period was thus characterized by a more judicial spirit and a more dispassionate discussion and careful weighing of the facts of the situation. It resulted in an effort to appraise more exactly the merits of the case, and to discount extravagant claims and counter-claims. This attitude had already been found previously in certain quarters. At the Chicago convention of the American Trade Acceptance Council in June, 1918, Mr. Warburg had said:

> Both sides, to my mind, have made the mistake of over-stating their case. The champions of the trade acceptance are not war-

ranted in saying that it is the only proper instrument of credit, that it should, or will, drive out rapidly all single name paper and the cash discount system, that to use it is the highest degree of patriotism and that to refrain from using it shows a lack of public spirit. On the other hand, it is equally unwarranted to assert that the use of the trade acceptance by the business men and bankers in the United States is impracticable, or that its adoption makes for bad and unsound business habits.

Careful observers as early as 1917, had discerned elements of danger in mistaken views that were being spread. As time went on, specific abuses appeared. These abuses were described by the American Acceptance Council in its Acceptance Bulletin, as follows:

So far as we have learned, these practices have been largely, if not entirely, confined to houses of minor importance, and they were possibly not surprising in view of the period of credit strain which was endured last summer and autumn, particularly in the textile lines, regarding which the complaints were most general, and the ignorance or lack of appreciation among the smaller and less well-informed commercial concerns as to the proper use of the trade acceptance. A flabbiness of commercial moral fiber may also have been a contributing cause.

Criticism has also been heard of the trade acceptance with regard to its use in more or less speculative operations in goods between jobbers and middlemen, many of whom injected themselves into the textile markets during the period of ascending prices, of silks, particularly, but other textile lines as well.

The Council has been informed that speculators were prone to buy goods on trade acceptance terms which they would resell on similar terms and that the same goods would rotate by sale and resale among this class of speculative traders, with a trade acceptance being issued in each case, so that before the maturity of the bill issued on the first sale, there might be several bills created in respect of new speculative transactions in the same banks of traders, and in some cases, these were discounted.

These abuses were recognized from the opening of 1919 on, by friends as well as foes of the acceptance, and atten-

tion was called to them. Thus the National Association of Credit Men said in its Bulletin that year:

> We must exercise vigilance that the remarkable instrument brought to us through the special provision of the Federal Reserve Act is not abused through willful ignorant misuse. Incidentally, we urge our members to approach the use of the acceptance in orderly manner, and the acceptance forms and introductory explanatory letter issued by the Association will help do this (p. 97).
>
> The best friend of the acceptance and of the Federal Reserve Board which has given the acceptance its support from the start, is he who immediately voices his disapproval on discovering an abuse or misuse of the acceptance, no matter how slight that abuse may be (p. 355).

Mr. D. C. Wills delivered an address before the 1919 Convention of the American Acceptance Council on "Dangers to be Avoided in Trade Acceptance Practice." The National Association of Credit Men also recognized the existence of abuses in the resolution at its 1920 convention endorsing the acceptance and emphasized its disapproval of them. An address was delivered by Dr. H. P. Willis, former secretary of the Federal Reserve Board, and at one time a staunch advocate of the use of the acceptance, before the New York State Bankers Association at Asbury Park, N. J., June 17, 1920, on "Acceptances—A Neglected Element in Inflation."

Trade Acceptances at Federal Reserve Banks.—Meanwhile a change was also taking place in the status of trade acceptances at Federal Reserve Banks. On January 1, 1919, all banks granted acceptances of 16-90 days maturity a preferential rate 1/4 per cent below that on ordinary paper, and the rate was 4 1/2 per cent in all districts except Kansas City and San Francisco, where it was 4 3/4 per cent. It gradually, however, became the policy to reduce the number of classes of paper (especially by

disregarding differences in maturity), and to bring the rates on different classes of paper more nearly into harmony with each other. Changes in rates were particularly pronounced in November and December, 1919, and on January 1, 1920, there was a preferential rate of 1/4 per cent on acceptances having a maturity of not over 90 days in only 6 districts (1/2 per cent on 61-90 day acceptances in one of these). The rate stood at 4 1/2 per cent in all these 6 districts, at 4 per cent in 4 others, and at 5 per cent in 2 others. During 1920, rates on all classes of paper and in all districts were greatly advanced, so that at the close of the year the rates were 5 1/2 per cent in 1 district, 6 per cent in 6 districts, 6 1/2 per cent in 1 district and 7 per cent in 4 districts, while preferential rates remained in only 2 districts, namely Cleveland (1/4 per cent) and Minneapolis (1/2 per cent).

An indication of trade acceptance operations at Federal Reserve Banks throughout the entire period is afforded by the following figures, showing the volume discounted, by quarters.

VOLUME OF TRADE ACCEPTANCES DISCOUNTED BY FEDERAL RESERVE BANKS QUARTERLY, 1915-1921

(In thousands of dollars)

	1915	1916	1917	1918	1919	1920	1921
Jan.-Mar.	...	989	2,193	49,446	28,345	50,904	45,136
April-June	...	814	4,967	39,098	23,079	45,775	30,564
July-Sept.	320	1,038	3,871	47,501	25,541	44,628	25,428
Oct.-Dec.	1,639	2,371	26,740	51,327	61,455	50,850	27,550
Year	1,959	5,212	37,771	187,372	138,420	192,157	128,678

The volume of domestic trade acceptances bought in the open market has been very small as is shown by the following figures for recent years:

VOLUME OF TRADE ACCEPTANCES IN THE DOMESTIC TRADE, BOUGHT BY FEDERAL RESERVE BANKS IN OPEN MARKET, QUARTERLY, 1919-1921

(In thousands of dollars)

	1919	1920	1921
January-March	1,876	1,143	85
April-June	1,183	2,950	..
July-September	1,475	418	..
October-December	4,734	1,240	..
Year	9,269	5,751	85

Trade acceptances, for a good while after the formulation of the Board's regulation in 1915, were taken only very sparingly by banks, partly because of the practice of owners of such acceptances of holding them without discounting, and partly because of the greater familiarity of the banks with the straight single name note.[a] For the same reasons they were presented only very sparingly to Federal Reserve Banks and but few of them found lodgment there. A considerable falling off is shown in 1921.

CHAPTER VIII

EXTENT OF USE OF THE TRADE ACCEPTANCE

A number of surveys have been made of the extent to which the trade acceptance is employed. Most of them, however, have been partisan in the sense of having been made either by friends or by foes of the acceptance. In most of them the endeavor has been to address a questionnaire to business houses which may be using the instrument, covering such matters as the extent to which the firm addressed uses the acceptances on its accounts, its experience, etc. Inquiries have also been addressed to banks covering the practice of their customers, as well as their own procedure. Surveys such as these are of interest as indicating, in a general way, the field of use and the problems arising in connection with the instrument. These problems including the difficulties encountered in introducing the acceptance, the attitude of the banks as to the rate of discount and amount of credit extended on acceptances as contrasted with ordinary single name paper, the effect of the use of the instrument upon collections, and the use of the acceptance on a firm's purchases as well as on its sales. Particularly were such surveys of value in the early stages of the movement. As the acceptance became more thoroughly developed, these studies became defective in that they failed to recognize the peculiar conditions found in different industries, and did not serve to indicate definitely the particular fields of business to which the acceptance appeared most applicable. Analysis of this kind should be the second step in a study of the question,

supplementing the earlier, more general surveys. The data for such an analysis are available in Part III of the present work, and will be brought together later in the present chapter. Some of the surveys of the kind just described also include questions designed to elicit opinions on the theory of the acceptance, as will be indicated below.

Surveys of the Use of the Acceptance.—At various times published statements have appeared as to the number of firms known or believed to be using the trade acceptance. A committee of Federal Reserve Agents reported in December, 1916, that they had a list, known to be very incomplete, of 70 companies belonging to 40 lines, and located in 18 states. Dealers in cotton, cotton goods and cotton mills were most prominent, with the lumber industry second. The trade acceptance appeared to have had a readier reception among concerns of smaller capital, although a number of high rated companies also were included. It was said in the *Journal of the American Bankers Association* for November, 1917, that it was plain that the West was waiting to see what the East was going to do on trade acceptances, but was ready and willing to fall into line. The following issue stated that about 1600 representative wholesale firms had adopted it as a substitute for the open account. The report of the Association's Trade Acceptance Committee at the 1918 convention stated that while a year before there were 185 known users of the trade acceptance, the number had increased to many thousand during the year. From this time on, figures given are generally estimates, and are designed to include those firms which use the acceptance only in infrequent cases, as well as those which make it an integral part of their terms. Mr. R. H. Bean, Executive Secretary of the American Acceptance Council, estimated under date of October 22, 1921, that upwards of 25,000 firms were using acceptances, and stated that the number was constantly

increasing. Some leading authorities believe that 90 per cent or more of the trade acceptances now used are employed as collection instruments, but hold that this makes for closer collections, and hence is a step toward better credit.

The trade acceptance did not receive attention from the business community immediately, but active discussion began in 1916. The first survey accordingly was commenced in that year, and up to 1921, 10 inquiries have come to the writer's notice, as follows:

1. Federal Reserve Board in 1917.
2. Federal Reserve Agents in 1916-1918 (partly referred to above).
3. The National Association of Credit Men in 1916-1918 (not available).
4. The American Trade Acceptance Council in 1917-1918 (not available).
5. The Business Bourse of New York in 1918.
6. Mr. W. W. Wilmot of the *Trade Acceptance Journal* in 1918 (not available).
7. Messrs. Paine and Jenks of Philadelphia in 1917-1918.
8. The National Association of Manufacturers (not available).
9. Survey of 1918.
10. Mr. Park Mathewson, of the Business Bourse, in 1921.

Certain of these inquiries included banks as well as business houses, and some covered the theory as well as the use of the instrument. The results of some of the investigations, however, are not available, and they are accordingly omitted in the discussion which follows.

The Federal Reserve Board Inquiry of 1917.—Numerous inquiries received during the early part of 1917 led the Federal Reserve Board in June of that year to author-

ize an informal inquiry under the direction of the secretary into the conditions under which the trade acceptance was then being used. Replies were received from 368 banks and 385 business houses, and of these 242 bank and 203 mercantile letters alone gave actual information. Additional material was received from certain Federal Reserve Banks, mercantile associations and independent investigators. The results of the study may be summarized as follows:

Banks' Data:

1. The large majority of answers stated that the number of a bank's clients who requested customers to whom they sold to furnish trade acceptances was either negligible or nil. Only 6 of 63 banks reported over 6 firms making such a request.
2. Of the concerns which were asking their customers to furnish acceptances, practically none were known to be giving trade acceptances to those of whom they purchased.
3. In the majority of cases where acceptances were being required, the action was taken with a distinct view to presenting the paper for discount at the bank.
4. Owing to the comparative scarcity of acceptance paper, no specified rate on trade acceptances was in effect on July 2, 1917, but each case was treated on its individual merits.
5. Of 148 banks, 70 either made a rate lower than on the direct note of the concern, usually from ½ per cent to 1 per cent, or would make such a rate should acceptances be offered, while the remainder granted or would grant the same rate on both forms of paper.
6. Of 167 banks, 153 would grant a larger line on trade acceptances, while the remainder would merely grant the same line. The proportion of increase generally varied from 10 to 100 per cent.

Business Houses' Data:

1. Forty-five concerns at that time requested their customers to give trade acceptances, while 141 were not in the habit of doing this.

2. Eleven were in the habit of giving acceptances themselves, while 176 were not. It appeared to be the custom among those who were inclined to the use of the acceptance to request the instrument of customers but not to offer it themselves to creditors. A considerable number of the 45 houses that asked customers to give acceptances did not habitually do so, but in most cases requested them from concerns which were slow in payment.
3. Of 55 houses, 51 believed (based in the majority of cases upon opinion) that the trade acceptance would be paid more promptly than would the open account.
4. Of 44 houses, 22 were in the habit of discounting acceptances held by them, while the other 22 were not. Of 31 concerns, only 8 received or had been promised a lower rate than on straight paper.
5. Of 15 concerns, 9 were receiving or had been promised a larger line of credit on trade acceptance.
6. Of 46 concerns not in the habit of asking or giving trade acceptances, because of credit conditions prevailing in their particular branch of trade, 26 approved the principle but the other 20 expressed themselves as strongly opposed to the idea of the acceptance.

Inquiries of Trade-Acceptance Advocates in 1918.—Neither the inquiries of the National Association of Credit Men, extending from 1916 on, nor the inquiries of the American Trade Acceptance Council, commencing in 1917, were systematic, but consisted rather of letters received at various times from business houses using the trade acceptance. Aside from the material published by both bodies, the results of these inquiries are not available.

In 1918, the Business Bourse, a commercial organization with headquarters in New York, also undertook an investigation. The outcome of the inquiry on the whole was favorable, and the statements of the organization were evidently made with the intent of sustaining and furthering the development of the instrument. While the arguments presented in favor of the trade acceptance were the familiar statements often contained in trade acceptance literature,

of over 200 individuals with whom the organization had corresponded, all of whom were using trade acceptances, only one appeared to be dissatisfied. Many of those who expressed themselves favorably on the question, however, were using it as a collection instrument.

Mr. W. W. Wilmot of the *Trade Acceptance Journal*, who had formerly been with the National Association of Credit Men, addressed a letter in September, 1918, to about 800 persons in which he asked 5 questions about the attitude of banks toward the trade acceptance, the results of which, unfortunately, are not available.

Investigation of Messrs. Paine and Jenks.—In 1917, an inquiry was also made on behalf of Messrs. George H. Paine and John S. Jenks, Jr., of Philadelphia, by Professor John J. Sullivan of the Department of Law of the University of Pennsylvania. The character of the inquiry will be seen from the following questionnaire which was sent out:

1. In View of the long established and admittedly sound practice in this country whereby a seller of goods offers the buyer, for prompt payment ("cash"), a premium ("discount") greatly in excess of a bank's interest charge for the full credit period; and

   In View of the facilities now offered by the Federal Reserve Banks to enable local banks to finance local merchants in their purchase of commodities needed by the local communities;

   I Would Ask: Should we not discourage a practice which requires the seller to bear the burden of financing the buyer, and encourage instead, a practice which will facilitate local bank financing of the local merchants and thus enable the local merchant (the buyer) to take advantage of the premium ("discount") offered by the seller for prompt payment ("cash")?

2. In View of the fact that the buyer of goods receives, in the quotations and the invoices covering his pur-

chases, a specific offer of a large premium ("discount") for payment within (usually) ten days; and

IN VIEW OF the fact that this premium ("discount") is practically interest at an exceedingly heavy rate, considering the fixed period within which the buyer is pledged to pay;

I WOULD ASK: Should any written promise of payment (regardless of its form) which is signed by a buyer who fails to take the large "cash" premium ("discount"), be deemed such complete evidence of that buyer's ability to pay as to warrant a banker or a seller of goods in largely increasing the amount he would otherwise lend or sell to that buyer?

3. IN VIEW OF the offer of a large premium ("discount") usually made by a seller to a buyer for prompt payment ("cash"); and

IN VIEW OF what has been said condemning the "open account" and the commercial credit practice out of which that grew; that is to say, the seller financing the buyer for the credit period at what amounts to an excessive and usurious interest rate; and

IN VIEW OF the rediscount facilities now offered by the Federal Reserve System which enable local banks to finance any sound local merchant in the purchase of commodities for his locality;

I WOULD ASK: Is an open account, or any written promise of payment (regardless of its form), of a buyer who fails to take advantage of the large premium ("discount") offered by a seller for prompt payment ("cash"), a consistently good investment at its face value for a commercial house or a bank?

4. IN VIEW OF what has been said in connection with the preceding questions;

I WOULD ASK: When a buyer takes up his own account by signing negotiable paper for the amount thereof, which the seller endorses and then gets his bank to discount, does not this mean that the

> seller is lending his own credit to finance the buyer's purchase of goods, and is not the seller practically an accommodation endorser?

About 160 answers were received, including those of both business men and students. The majority of the answers were accompanied with interesting and illuminating letters. Professor Sullivan analyzed these as follows:

1. That under existing commercial practice most trades have become habituated to the use of the so-called "cash discount" which, in accordance with that practice, the seller almost universally offers the buyer for prompt payment. With few exceptions the business houses of the country show themselves inclined to maintain this practice.
2. That when this premium or "cash discount" is offered, it is only in transactions where the buyer fails to take it that a trade acceptance can be used.
3. That, as this premium or "cash discount" equals an interest rate of from 14 per cent to 40 per cent per annum, the buyer who fails to take it must be either an inferior credit risk or a poor business man.
4. That financing of the buyer by the seller is wrong in principle, and is the great weakness in our commercial system, no matter in what form it is practiced, open accounts, notes or acceptances.
5. That the premium or "cash discount," offered the buyer for prompt payment, is the seller's weapon against the practice of his financing the buyer.
6. That the buyer represents his community and not the seller. Therefore, the buyer's community should finance him and, where the buyer properly represents it, it will and can do this through its bank or banks, in order to escape payment of the high cost of credit which the buyer must pay if the seller finances him and which the buyer, so paying, must include in his price to the community.
7. That some communities have been without adequate banking facilities but the increased powers and privileges granted banks under the Federal Reserve System enable this disability to be effectually removed.
8. That all efforts to make changes should be to force and develop local financing of the buyer.

Under date of December 28, 1917, these were sent to each gentleman who had replied to the questionnaire, and many further letters were received, expressing substantial agreement with the conclusions.

Survey of 1918.—In the autumn of 1918, an impartial investigator addressed a questionnaire to about 250 business houses and about 125 banks, the aim being to cover all the leading lines and all sections of the country.

The general conclusions reached, based both upon this survey and upon the results obtained by previous investigators, were as follows:

1. The trade acceptance had obtained a footing with a number of banks and business houses in various parts of the country, although terms of payment were unfavorable in certain lines and prevented its use in them.
2. Many of the business houses favoring the acceptance did so chiefly on the ground that it afforded a superior means of collection.
3. The line of credit extended on trade acceptances as against that on single name paper appeared to be larger only in proportion as the credit of acceptors was superior to that of the seller presenting the acceptance for discount.
4. Preferential rates, from ½ to 1 per cent under the regular rate, were being made on acceptances by but few banks, while some who had not had any trade acceptances presented to them, were willing to make a special rate under suitable conditions.
5. Practically universally it was desired to maintain the cash discount system. Trade acceptances were regarded as primarily applicable to accounts taking the net terms.
6. Business houses using the trade acceptance generally suggested 3 methods of settlement to customers—cash discount, trade acceptance or open account, varying in degree of desirability in the order named. Some firms offered a discount smaller than the cash discount for trade acceptance settlement.
7. In most cases where trade acceptances were requested, the seller asked the buyer to mail him a trade acceptance direct.
8. Considerable difference of opinion existed among well-

informed business men and bankers with reference to the benefits of the trade acceptance as a credit instrument.
9. A considerable number of practical and technical difficulties were involved in the use of the trade acceptance.

Investigation of Park Mathewson in 1921.—The latest survey which has come to the writer's attention is that appearing in Chapter XVII of a work on *Acceptances, Trade and Bankers* (New York, 1921), by Mr. Park Mathewson, Vice-President of the Business Bourse of New York, who favors the acceptance. The results are summarized by Mr. Mathewson as follows:

The answers indicate that trade acceptances are being used successfully in all lines of merchandising trade. The replies show earnest attention to the plan by those using them, but do not show standardized methods or results.

In detail, the results were as follows:

1. Thirty-five per cent of reporting firms had used them, 65 per cent had not. The average length of time for which used was less than a year.
2. Ninety-four per cent thought them advantageous, 6 per cent did not.
3. The customers of 50 per cent welcomed the trade acceptance, of 10 per cent resented them and of 40 per cent ignored them.
4. Various objections were given by customers, and efforts made to overcome these objections.
5. The salesmen of none of the firms objected to the trade acceptance.
6. The banks of some of the firms opposed the trade acceptance, of others favored them, and of others were apathetic.
7. Ninety-nine per cent of the firms made practically no objection themselves to the trade acceptance.
8. None of the firms found that it interfered with their one name paper or line of credit, and 99 per cent found that it increased their line.
9. Fifty per cent discounted all the acceptances they received, 20 per cent discounted none, 10 per cent discounted half, and the percentage for the remainder varied.

10. Ten per cent paid an average rate of over 6 per cent; 50 per cent an average rate of 6 per cent; 10 per cent an average rate of 5½ per cent, and 30 per cent an average rate of 5 per cent.
11. Sixty per cent of the firms had none returned unpaid; 15 per cent had 1 per cent; 10 per cent had from 2 to 5 per cent; 10 per cent had 2 per cent; 5 per cent had from 5 to 10 per cent.
12. Ten per cent gave no inducement over the regular terms to the buyer for signing acceptances, while the concessions of the remainder varied, some granting a discount up to 2 per cent, and other extra time up to 60 days, and some both.
13. One hundred per cent found that accounts were paid more promptly with trade acceptances. Sixty per cent found that it saved time in bookkeeping and 95 per cent in dunning.
14. Ninety-five per cent found a benefit from having accounts in more liquid form.
15. Only 5 per cent received a preferential rate on acceptances over one name paper, averaging ½ per cent.
16. Practice varied as to paying their own bills with acceptances.
17. The trade associations of 65 per cent favored acceptances, while those of the other 35 per cent were not on record.

Present Use of the Trade Acceptance.—It is in order now to take up the second type of study mentioned at the opening of the chapter. This involves an analysis of the directions and the fields in which the acceptance has found its major use. It should be mentioned at the outset that in no line has the impetus towards the use of the trade acceptance been so strong as to lead to the regular use of net terms only, the cash discount then being abolished in the line. This has merely been done by individual houses in a variety of industries, but in no one line can a marked tendency in that direction be said to have been evident. The trade acceptance has thus been introduced alongside of, and as an adjunct to, the existing cash discount system, and has been subject to all the limitations of introduction in such a manner. It has also been used primarily by

manufacturers, for the leading wholesale lines have generally been strongly opposed to it, although the Southern Wholesale Dry Goods Association in 1918, adopted a resolution in favor of it, and the National Hardware Association distributed considerable literature relative to it. Especially is this the case where the terms themselves usually are short and where great emphasis has been placed upon the cash discount in connection with the wholesalers' purchases, as in the case of groceries. On the other hand, in wholesale lines where terms are longer, and in which considerable trading occurs, such as the textiles, the opposition is not nearly so strong, and the instrument is more often used. Some houses in each of the other lines mentioned, it is true, have also used it, but they form only a small minority. As has already been indicated, the wholesalers, in general, place leading emphasis on the cash discount, and at least on this ground are suspicious of the trade acceptance. This means also that the trade acceptance is not used on sales to them, especially as they are supposed to discount their bills. It is primarily used by manufacturers on sales to other manufacturers, retailers, or industrial consumers.

Within this field of possible use, certain other limitations are found. The trade acceptance is generally not found where terms are very short—one month or less, although some 30-day trade acceptances are used, such as on flour in the Southeast, and on jobbers' sales of electrical products. Moreover, the trade acceptance is not used where invoices are very small, unless they are grouped and one trade acceptance given for purchases made during the preceding week, fortnight or month. The instrument is then generally found where the terms are medium to long, and bills are fair-sized. Finally, the trade acceptance appears as a result of dissatisfaction with the existing practice of having the net terms run on open account. It generally makes

its appearance either as a means of prompter collection from the poorest accounts, appearing alongside the open account, or, in other lines where such abuse is widespread, as a general means of covering the accounts taking the net terms. In either case, the purpose is the same.

These factors indicate the general lines along which trade acceptance development has proceeded. In the past, the acceptance had already been used in certain lines where terms were rather long, such as for leaf tobacco, the cheaper domestic cigars and jewelry. In some of these lines part of the buyers were often granted open account terms, while the remainder gave either an acceptance or else a note. Much of the current use of the acceptance in other lines has been in the same general manner—as a collection instrument on that part of the accounts of a firm which might be slow if allowed to run on open account. Many manufacturers, for example, of metal products, have sought to introduce it in this way on some of their accounts. Some leading authorities estimate that at least 90 per cent of the acceptances now in use are employed as collection instruments.

In other lines, the introduction of the acceptance has been advocated in connection with a desire to substitute embodied for unembodied credit in the case of all those who take the net terms in the industry in question. Manufacturers of agricultural implements have for some years urged dealers to obtain paper from customers, and their own terms in turn call for paper where their bills are not discounted. At first the note was advocated for this purpose, but more recently the trade acceptance has been favored. Another illustration of this desire to use embodied in place of unembodied credit in the case of all those accounts which take the net terms, is found in the lumber industry, both as between manufacturers and wholesalers, and as between wholesalers and retailers.

Finally another field of use for the trade acceptance has been opened in connection with season datings. Here the purpose is not to introduce greater definiteness into the obligation of buyer to seller, but rather to give the seller a specific instrument evidencing the transaction. Under such conditions the acceptance does not embody only the credit of the inferior accounts, but includes the first class accounts as well. Most conspicuous among these lines has been automobile tires, where the acceptance has been used in connection with spring payment for winter shipments. Terms on subsequent current shipments are, however, 5 per cent 10th proximo. No acceptance is used on them at all, but they run entirely on open account.

CHAPTER IX

THE NET-TERMS SYSTEM VERSUS THE CASH-DISCOUNT SYSTEM —CREDIT ASPECTS

In considering the commercial credit system critically, and contrasting existing practice with the trade acceptance plan which has been proposed, it is necessary to keep clearly in mind the real problems involved. Much misconception exists as to the trade acceptance, and many of the discussions, both by those in favor and those opposed, have this defect in common. In fact, it will shortly be seen that the trade acceptance is not a fundamental element in the situation, but that the underlying distinction is quite different. The contrast is actually between a system in which net terms alone are found, and one in which they exist in conjunction with a cash discount. Furthermore, the issue is by no means clear cut. Each system has certain advantages and likewise certain disadvantages. That is to say, each system is peculiarly adapted to certain conditions, at the same time that it is less suited to other conditions. This suggests the desirability of directing the analysis toward a careful examination of the real field of use of each, instead of an attempt at too sweeping generalization. Neither system is wholly good nor wholly bad.

Alternative Systems of Finance.—It is desirable at the outset to indicate clearly the contrast between the several systems of commercial credit and finance which may be employed. In doing this, certain of the points already mentioned at various places in the book will be recalled. As has just been stated, the actual contrast is not accord-

ing to the form of obligation existing between buyer and seller, or between either of them and the bank. This is quite secondary to the distinction according to the time granted the buyer by the seller. In other words, with a system in which net terms alone are quoted, is to be contrasted a system in which several options are given, namely payment net at the close of a certain period, or payment at the close of one or more shorter periods, in which case specified discounts may be deducted. Under the one system, for example, terms will be net 60 days; under the other, 2 per cent 10 days, net 60 days or less often 2 per cent 10 days, 1 per cent 30 days, net 60 days. These two systems may conveniently be called respectively the net-terms and the cash-discount systems.

Not only does this raise the question of credit arrangements between buyers and sellers of goods, but it also raises broader questions of finance in general. These questions include the relation of both buyer and seller to the bank, and the problem how the paper representing, either directly or indirectly, funds supplied for the transaction, gets into the bank. Under the net-terms system, the seller carries the buyer, and supplies the funds involved. Presumably he does this, and his net terms run, for a period of time equal to the buyer's marketing period. The seller then borrows in turn from his bank in order to obtain these funds. He may do this either directly on his receivables, or merely on the basis of his general statement, of which the receivables become an integral part. In any event, he has a specific body of receivables which he in effect is able to shift in some measure to the bank.

With the cash-discount system, the situation is somewhat different. Those accounts which do not take the discount are financed through the seller in the manner just indicated. But, inasmuch as the cash discount exceeds the current rate of interest, it is profitable for the

buyer, wherever possible, to take the discount. This means that, where his own funds are insufficient, he will, if possible, borrow from his bank, in order to take the discount. This he will do on the basis of his general position. Under the cash-discount system, buyers are therefore divided into two classes, which are financed in different ways. A select part are financed directly at their own banks, while the remainder are financed through the sellers at the sellers' banks.

The Net-Terms System and the Trade-Acceptance System.—The cash-discount period is usually short, and no special paper is used in connection with it. The net-terms period is longer, and several alternatives exist. The credit may be either unembodied and run on open account, or may be embodied in the sense of being represented by a specific credit instrument. This may be either a note of the buyer or a trade acceptance, both being substantially similar from this point of view, in spite of their other differences. Where the trade acceptance is used in this way as an adjunct to a cash-discount system, it embodies inferior credit. The best accounts borrow from their banks, and discount their bills, while the poorer accounts who either cannot borrow or else have already obtained their full line of credit from their banks, give trade acceptances. But if a trade acceptance is to represent the best paper, the best accounts must not be given the opportunity to borrow directly from their own banks. They must therefore be quoted only net terms, the same as the other accounts. That is to say, if the trade acceptance is to be a first class instrument, the trade-acceptance system must mean a system in which net terms alone are quoted. In short, with the cash-discount system is to be contrasted the net-terms system. The question then practically becomes this: should we have a cash discount, or should we not?

The fact that the trade acceptance may be used in the two ways just indicated has caused much confusion in current discussion. The advocates of the cash-discount system call attention to the points just mentioned. On the other hand, advocates of the trade acceptance have often contended that there is no essential antagonism between it and the cash discount. "No foundation can be discovered for this fear," said the Board of Directors of the National Association of Credit Men at its annual meeting in Atlantic City in September, 1918, "for sales terms are not changed by the use of the acceptance, but it is merely an acknowledgment of the obligation." This is true only if the requirement that the trade acceptance be first-class paper is waived. The acceptance is then used primarily as a collection instrument, and as such is to be contrasted with the open account. Trade-acceptance advocates in fact are fond of drawing this contrast. They compare the trade-acceptance system with the open-account system, while opponents on the other hand compare it with the cash-discount system. In other words, each group tends to adopt a different point of view, and to stress a different phase.

The Problems Involved.—Much of the literature for and against the trade acceptance is addressed directly to the business man, and is designed to convince him that he should either use or oppose the instrument. Data of this kind naturally base their appeal upon those considerations which most directly affect him, and thus make much of arguments that are by no means fundamental. These arguments are usually listed in more or less parallel column fashion. Without disparaging in the least the value of work of this kind, it is necessary for the present purpose to approach the matter somewhat differently. A broader point of view must be adopted than that of the individual business man and his immediate self-interest. The various

aspects which the two systems of finance involve must be considered, and the tests which they should meet.

Fundamental Tests.—The initial point which should be kept in mind is this: the problem is a minimal one—the maximum of efficiency at the minimum of cost. This does not mean that the best system, irrespective of cost, nor the cheapest system, irrespective of efficiency, is desired. It requires a system which functions or does the work satisfactorily at reasonable cost or expense. This system, moreover, need not be the same under all conditions; what is best under one set of circumstances may be worst under another.

But what work should the system do? 1. It should provide an efficient and economical means of credit extension. Each individual should receive the amount of credit to which he is entitled, and which, when granted, will enable the economic system to operate satisfactorily, and he should receive this credit for a length of time sufficient for his operations. This naturally involves several auxiliary questions. What agency should directly measure the credit, and, inasmuch as the bank in last analysis supplies all the funds involved, what method of credit measurement should it employ? In addition to matters connected with the granting of credit, it also involves the termination of credit arrangements—the liquidation of the credit at the close of the period for which it is extended.

In performing its service in connection with the granting and terminating of credit, the system should foster efficient and economical business practice on the part of the community. It should also not bring undesirable events, such as price changes, in its wake. These aims will be achieved by an efficient credit system, but incompetence will lead to undesirable consequences along these two lines.

2. The system should be such as to permit efficient and economical operation of the banking system. Questions

auxiliary hereto concern the relation which prevails between the borrower and the bank, and the paper which the banking system and the open market receive. These matters relate solely to the banking system, and treat the problem from that point of view, instead of being concerned with the general credit aspects indicated under the first head.

It should be emphasized that in applying these tests, standards or criteria, whichever they may be termed, the operation of a system wherein net terms alone are found should be contrasted with one in which both a cash discount and net terms are found. It is important to remember that in the latter system financing occurs in two ways. This system is actually neither a cash-discount system nor a net-terms system, but a *combination* of both. This *combination* is to be contrasted with a system in which net terms alone are found.

Agency for Credit Measurement.—As already indicated, under a net-terms system, the seller directly measures the credit of the buyer of merchandise. Under a cash-discount system, the same is true with those buyers who do not discount their bills, but the bank measures the credit of those buyers who borrow from it in order to take the discount. Where a cash-discount system prevails, buyers are therefore divided by means of the discount into two classes. The credit of each class is measured by a different agency—the bank for the best accounts who discount their bills, and the seller for the poorer accounts who do not discount, and who have been recognized by the bank as not worthy of credit from it. But the seller in turn finds it necessary to borrow in order to enable him to carry these accounts. To the extent that he does this, his bank in turn measures the credit. It considers the receivables which he possesses either specifically or as part of his general assets, and to a greater or lesser degree checks the

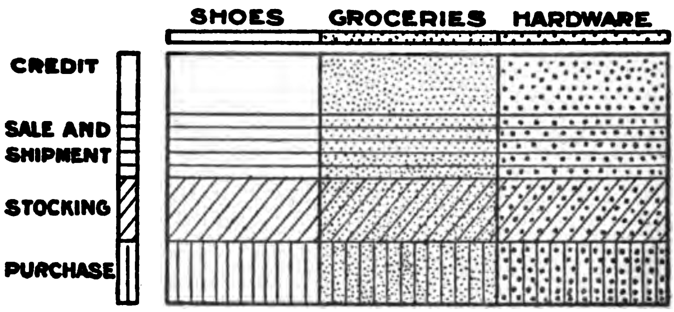
credit which he has previously granted. Under a cash-discount system, therefore, the buyers' local banks measure the credit of part of the buyers, and the seller, checked in turn to some degree by the seller's own bank, that of the remainder. Under a net-terms system, the second method of course prevails on all the accounts. The situation may be summarized as follows:

Net-terms system
  Seller measures credit of buyer
  Seller's bank rechecks
Cash-discount system
  Local bank separates accounts into two classes—best and poorer.
  Best accounts
    Local bank measures credit of buyer
  Poorer accounts
    Same method as under net-terms system

These considerations naturally raise the question: who is better fitted to measure the credit—the seller and indirectly the seller's own bank, or the local bank of the buyer? It should be noted that the contrast is of more limited applicability than is often implied by writers on the subject, who ignore the fact that under the cash discount system the local bank measures the credit of only *part* of the buyers. Moreover, even granting that the local bank were a better judge of credit than the seller, it exercises its judgment only on the best accounts. The seller is left to exercise his judgment on the poorer accounts, and in effect to guarantee them to the bank, exactly as is the case on all accounts under the net terms system. In other words, precisely where expert judgment is most needed, the cash discount system fails to apply it. The advantage which it affords to the seller is derived and secondary. He is

relieved of the credit work on part of his accounts, and is thus enabled to concentrate his attention upon the poorer buyers. This relieves him of some risk and expense, and may tend to reduce his bad debt loss. The importance of this factor will vary greatly as between different industries, but in any event the considerations noted serve to indicate the limits which exist to the usefulness of the cash-discount system.

Relative Merit of Seller and Bank.—The question remains whether the bank is a better judge of credit than is the seller. This raises the question whether the credit



problems of individual industries may be separated from the manufacturing and merchandising problems and given over, or at least the larger part of them, to the bank. The wholesale shoe, grocery and hardware businesses must all purchase certain merchandise, keep it in stock, sell and ship it out, and extend credit to those to whom they sell. Other industries, both manufacturing and wholesale, are confronted with similar merchandising and credit problems. Are the credit problems which individual business houses throughout the economic system as a whole face, so similar as to render it possible to take a cross section through the economic system and segregate these problems? If this is

not so, are the credit problems which the grocer faces instead first and foremost matters pertaining to the grocery business, and only secondarily, credit problems allied to the credit problems found in other lines? In other words, is the cleavage in the figure opposite vertical or horizontal?

It has been argued[1] that under the modern division of labor, production is localized, but industry is on a large scale, and therefore credit should be specialized and placed in the hands of experts in this particular field. This raises a question similar to that just indicated, namely, which direction should specialization take? Should the credit problems in the grocery business be handled by those who are primarily specialists in that business, or by those who are primarily specialists in credit? This is largely a matter of the size of the particular bank in any given case. The credit department of a large bank, with its staff of specialists in individual industries, will naturally be in a good position to deal with such matters. The small local bank, however, with its staff required to follow conditions simultaneously in a great number of lines, may well be much less favorably situated than are the credit departments of houses in particular industries. Especially is this point of importance because of the significance frequently attached to having the local bank measure the credit, as will be indicated below. The bank, however, in any case has a specific advantage in that it is a disinterested party, and as such will be free from the natural bias of the seller to increase as much as possible the credit granted, in order to stimulate sales.

Checking of Credit by the Local Bank.—A further problem to be considered is the location of the agency measuring the credit, or, as it is often called, the location of the financing. This involves a comparison of

[1] Agger, "Trade Acceptances Versus Bankers' Acceptances."

the relative merits of the buyer's local bank and of the seller. The argument in favor of the local bank proceeds along two lines. First, attention is given to what are regarded as fundamental economic factors. Attention is turned from recipients and grantors of credit to what is conceived to be the ultimate purpose of commercial credit. This, it is said, is to finance the flow of commodities from producer to consumer. The final test of commercial credit in any given industry is therefore consumer's demand for the commodity in question. This, it is held, can really only be ascertained locally, and the local bank is the proper agency for this purpose. It knows its local needs better than any outsider. Hence it should measure credit.[2]

The second line of argument considers recipients and grantors of credit. Attention is called to the size of the country, and the distance which often intervenes between buyer and seller. This, it is said, makes it difficult for small sellers to obtain accurate and reliable data on credit and market conditions, so that they actually sell to unknown buyers in unknown markets. Local measurement of credit is preferable in such cases, and should be performed, it is held, by the local bank.

Consider these two arguments in turn. The first thing to note is the restricted applicability of the argument for checking the credit at the point of consumption. It relates only to credit extended to retailers of goods intended for everyday use. Articles such as machinery, which are used by the buyer as fixed capital goods, are generally sold by the manufacturer direct to the user. Either may be located

[2] Local financing is also advocated for another reason. It is said that goods should be financed at the point where they are located, in order that proper supervision of the basis of the credit may be obtained. This cannot be had, it is claimed, where a seller in one place by selling on time grants credit to a buyer located elsewhere, who holds the goods. If the community needs more funds than it itself can supply, they should be obtained by its banks, and not by its business houses.

at any place whatsoever, and the question of local retailing does not enter. Furthermore, in the case of ordinary goods, only the test of *anticipated* demand by retailers and ultimately by consumers, can be applied to manufacturers and wholesalers who are found in intermediate stages of the economic process, instead of in the last stage, as is the retailer. The manufacturer's or wholesaler's local bank certainly cannot be said to be in an especially favorable situation, by virtue of its location, for knowing what the demand for his goods will be in the entire territory he covers. Yet provision must be made for checking the manufacturer's and wholesaler's credit and operations; no credit test can be deferred until the goods are on the point of being consumed. In other words, analysis of fundamental factors needs to be supplemented, in any event, by analysis of the actual credit mechanism which exists—the credit recipients and grantors throughout the economic process.

In fact, in the entire process of credit analysis, primary attention must be given to this credit mechanism. The more abstract analysis serves rather as a supplement than as a substitute. This throws us back upon the type of analysis made on page 161. The relative status of seller, buyer and bank must be considered. In doing this, generalization is of little aid. For example, in a general way, the bank is in a better position to measure local consumption of goods, as well as the buyer's net worth and general solvency. On the other hand, the seller is in a better position to judge the buyer's business methods and operations. In short, there is little clear-cut advantage on the side of either seller or local bank. Detailed analysis is required. The need for this is borne out by the fact that the other arguments in favor of local checking of credit are valid only under specified conditions. The point made in the footnote on page 162 that goods should be financed at the point where they are located, applies only in the case of

retailers, and certainly cannot be held to relate to large firms floating their paper in the open market. Moreover, referring to the second line of argument given on that page, it should not be difficult for well-organized firms covering intensively a certain district, to obtain data on credit and market conditions, and this would appear to be a serious handicap only to small sellers whose energies were scattered over a wide territory.

Analysis of Types of Industries.—Actual conditions vary greatly in different industries. This detailed analysis, therefore, should take the form of examining more closely the specific conditions which may be found on the industrial side. Difficulty in measuring credit arises in connection with small buyers, especially if located at points far removed from the seller. This, on the one hand, is a problem of obtaining credit and market information, and on the other, a problem of the degree of risk involved in credit relations with the buyers in the industry in question. In certain lines, such as jewelry and furs, the credit risk is great, and these call for different treatment than do less competitive lines having buyers whose standing on the whole is better. For this reason, it will be well to classify industries further according to the general status of buyers and sellers. In this four-fold classification, the words poor and small are used interchangeably to denote the less desirable credit risks.

1. Poor seller—poor buyer
2. " " —good "
3. Good seller—good buyer
4. " " —poor "

Each of these cases should be analyzed separately in turn, as each requires distinctive treatment. Moreover, under the system now found in the United States, attempt is specifically made to treat each group according to its par-

ticular requirements, and to adapt the methods of credit measurement to the actual needs of the case. The poor seller is presumably ill-informed and therefore, on the whole, incompetent to attend satisfactorily to credit measurement. In case 1, it is well, in addition, because of the fact that the buyer is also poor, to have as much of the credit as possible checked at once by the bank, and hence a cash discount is desirable. Where the buyer is good, however, as in case 2, a cash discount is also to be favored, but on somewhat different grounds. Cash payment and hence shift of the credit period from between buyer and seller to between buyer and bank, is desirable in some lines, in order to enable a seller who is not in a position to attend to extension of credit, to relieve himself of the task. Furthermore, from the point of view of economy it is desirable to have the better party to a transaction, in this case the buyer, apply directly to the bank, instead of having a larger number of weaker sellers do so. This point was fully discussed in Chapter III, where the case of sales of agricultural produce, with their disproportion in economic strength between buyer and seller, was cited.

Where both parties are good, as in case 3, it is really immaterial whether the bank or the seller measures the credit. In such lines, however, cash discounts often tend towards a minimum, or are eliminated, while the net terms themselves in many cases are short. Finally, where buyers are poor, but sellers are good, as in case 4, it may nevertheless be desirable to employ a cash discount in order to reduce the credit work. Especially will this be true in some lines, such as the wholesale hardware business, where those who discount their bills, those who pay promptly at the net maturity and those who run past due, are constantly changing and overlapping, so that at time of shipment it is not known positively to which class the customer will belong at time of payment. Moreover, the generalization may

safely be made, that in actual practice the longer the net terms and the greater accordingly the risk, other things being equal, the more certain there is to be a cash discount quoted.

These considerations apply, of course, to individual cases within any given industry, as well as to entire industries as a whole. But the important point for our purpose is the fact that under the existing system in the United States, attempt is specifically made to vary the manner of credit measurement and finance according to the needs of the particular situation. This represents a decided step in advance, and we must conclude that from the point of view of the agency which measures the credit, no general net-terms system would be desirable, any more than would a system calling exclusively for cash payments between buyer and seller.

Method of Credit Measurement by the Bank.—It is often assumed that the method of credit measurement employed by the bank varies according to the system of commercial credit and finance which is employed. In last analysis, the bank supplies the funds which are obtained by buyers of merchandise, either directly, or else indirectly through advancing them to sellers who in turn carry buyers. Our second question in contrasting the net-terms and the cash-discount systems, therefore, relates to the methods which the bank employs in measuring credit when it is engaged in this process. Under the cash-discount system, those buyers who take the discount borrow directly from the bank, receiving a line of credit from it on the basis of their general position. For those accounts which do not take the discount, and in cases where net terms exclusively are used, the seller first measures the buyer's credit, and this is not rechecked or considered by the bank to any great extent unless the buyer's name is notably stronger than the seller's. The bank is also dependent

chiefly upon the seller for information as to the buyer. Where the credit is embodied in a note or trade acceptance, much greater consideration is naturally possible than where it remains unembodied in an open account.

In current discussion it is often stressed that the trade acceptance is tied to a specific transaction, and this would of course be true of all the receivables were a net terms system alone employed. It is held that this fact makes possible a different basis for and method of credit measurement. While there may be some tendency in this direction, the use of the net-terms system, whatever the form of the receivables, does not specifically call for a particular system of credit measurement. The seller may hold the receivables himself and borrow from the bank on the basis of his general position under the line-of-credit system, in the same manner as does the buyer who wishes to take a cash discount. Moreover, at the present time the customary practice for the bank is actually to fix a line of credit for the seller who presents receivables, just as if he did not present them.

This fact means that, when taken alone, the specific transaction affords an inadequate basis for credit measurement. It is necessary under any system of credit extension to record the total amount of credit which each individual receives, in order to insure that the amount is not excessive. A record of this kind is already provided where a line-of-credit-system is used, and would have to be specially kept, were attempt made to use the specific transaction system. In this case the line-of-credit plan would serve as an adjunct to the specific transaction method, and a two-fold system would be required.

Furthermore, it should be remembered that the bank really loans to a buyer of goods. The liquidating power with respect to the bank's advance is furnished by a future transaction or series of transactions, and not by the past

transaction. Either the buyer must successfully resell the goods in question, or else the seller must successfully complete the operations which he undertakes with the funds he receives from the bank when he in effect passes the receivables on to it. If both these operations fail, the security afforded by the past transaction to which the receivables in question specifically relate, falls to the ground. Further knowledge is required than is afforded by the mere receivable. This is available under the line-of-credit system, with the analysis which it undertakes of the general position of the applicant for credit.

Finally, the line-of-credit system is more economical. It represents an attempt to apply the economies of large scale operation to credit measurement by banks.[3] Transactions are grouped, and an entire series is passed on by the bank at once, instead of each individually or a few together. Moreover, the unit considered is the individual firm, and the whole series of its transactions, both purchases and sales, is passed upon *en bloc*. The bank practically considers the totality of the firm's operations, and the interplay of both purchases and sales upon its general standing. While the bank in any event mediates between buyers and sellers, under the line-of-credit system, it measures the credit by taking its position firmly within a given stage of the economic process, instead of considering specific goods as they move from one stage to another. An efficient and more economical method of credit measurement is afforded. The losses under it on the whole are not sufficient to require that it be generally supplemented by the specific transaction method, and that the two-fold system called for where the latter is used, be employed. At best, the two-fold system may be desirable in the case of poor sellers, providing further knowledge of their operations.

[3] See the writer's *Some Aspects of Banking Theory* (New York, 1920), Chap. iv.

Several attempts have been made, notably in the Jenks Bill, to combine the specific transaction method, making special provision for accurate certification of the character of the merchandise, with measurement by the buyer's local bank. The latter then measures the credit, and finances the transaction. In other words, the buyer borrows in order to take the cash discount, but does so on a different form of paper. By thus introducing the local bank to measure the credit, it is desired to obtain a better check upon the buyer through the additional use of the line-of-credit system, the two methods of credit measurement then supplementing each other.[4] It has just been concluded that this combination of the two methods is unnecessary as a general rule, and in the case of the Jenks Bill the conclusion would be re-enforced by the complicated nature of the instrument itself.

Collection of Accounts.—The above discussion relates to the agencies and methods whereby credit is measured. It is a totally different matter when the collection of accounts promptly at the due date is considered. Here the question is: what form shall the extension of credit represented by the net terms take? Shall it be embodied, in the form of note or trade acceptance, or shall it be unembodied, in the form of the open account? In discussing this problem, we waive the question whether or not credit instruments used for this purpose represent the best paper, and consider merely, which is the best way to get accounts paid promptly at maturity. For this purpose, the trade acceptance may be used satisfactorily in conjunction with the cash discount.

It is often stated by trade-acceptance advocates (and the same in fact would be true of the note) that the acceptance

[4] As well as to have the local bank judge the consumptive powers of the community, and in this way the soundness of the credit granted the retailer, which has been discussed above.

gives the seller a hold on the buyer, especially when the seller passes the acceptance through a bank, either by discount or by turning it over for collection. Accounts are therefore settled more promptly where it is used than where an open account is employed. In fact, it has been estimated that 90 per cent or more of all trade acceptances now in use are employed for this purpose. The further advantage is claimed that, as this method results in prompter collections, credit conditions as a whole are thereby improved.

It will be generally agreed that it is desirable to use embodied credit for certain buyers, in place of the open account. But, if it accomplishes such beneficial results, might it not be well to go one step further and use it for all accounts which take the net terms? Trade-acceptance advocates frequently state that the open account is so often abused as to lead it to break down under its own weight. Mr. R. H. Treman, for example, has indicted the system in the hardware business as follows:[5]

> Among manufacturers . . . the reports show that when the bills are discounted, instead of being paid in 10 days, they have averaged 15 days, and for those who take the option of the 60-day credit period, the average payment is in from 75 to 80 days, and 10 per cent or more of customers take 90 days or more.
>
> As to jobbers (wholesale distributors), the reports show that throughout the country generally from 40 to 50 per cent of buyers discount their bills within 15 days after purchase, while of those who take the 60-day option from 25 to 30 per cent pay "promptly," or within one month following the 60-day maturity. Of the remaining 20 per cent, only about one-half pay in the period between 3 and 4 months after purchase while the other half pay in from 4 to 6 months, or never, notwithstanding that the terms of sale agreed upon were for a credit of only 60 days.

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[5] Address at 1916 Convention of the National Hardware Association, reproduced in "Trade Acceptances, What They Are and How They Are Used," October 1, 1919, pp. 23-24.

The data presented in Part III, however, do not paint so black a picture. Moreover, the trade acceptance is not an unmixed blessing. It is more cumbersome to handle than the open account, and involves considerable labor. Furthermore, it is a mistake to believe that the nature of the underlying credit can be greatly improved by its use. The primary factor in the problem is the individual who receives the credit, and the instrument which evidences it is only secondary. A greater degree of discrimination would therefore seem to be called for. In fact, under the system now in use, an attempt is made to distinguish more carefully. This is done in two ways. In certain lines, three classes of buyers are noted: (1) those who discount their bills; (2) those who buy on open account; and (3) those with whom a note or trade acceptance is used. The poorer buyers, or those who tend to run past due, are required to use embodied credit, while the remainder who take the net terms use the open account. On the other hand, buyers in general are notably weak in certain lines, and all buyers taking the net terms in these lines are required to use embodied credit. The two cases just sketched represent a more careful attempt at adjustment to the needs of the present situation than does the universal use of embodied credit for those who take the net terms, and one which appears better adapted to modern conditions.

The same indictment is frequently made against the cash discount as against the open account. That abuse is not flagrant in all cases is shown by the following statement of Mr. W. M. Bonham, of Knoxville, Tennessee, concerning the situation of his own firm in the wholesale hardware industry: [6]

We recently kept a careful tab over a period of 20 days of those who discounted after the terms expired. The results showed:

[6] "Terms of Sale in the Hardware Business," *Bulletin of the National Association of Credit Men*, September, 1919, p. 837.

that 46 per cent of the payments were discounted; the amount discounted was 57 per cent of the total amount received; that 90.2 per cent discounted according to discount terms. And among the remaining 9.8 per cent there were very few cases of flagrant neglect of terms.

The relatively limited extent to which such abuse exists does not appear sufficient to offset the services of the cash discount indicated earlier in the chapter.

CHAPTER X

THE NET-TERMS SYSTEM VERSUS THE CASH-DISCOUNT SYSTEM —SOCIAL AND BANKING ASPECTS

Effects upon Business Practice.—Trade acceptance advocates often not only claim advantages for their instrument from a credit point of view, but also contend that its introduction would foster sounder business practice and improve commercial morality. On the other hand, advocates of the cash-discount system not only deny the validity of these claims, but themselves raise certain counter claims. The points in this controversy relate specifically to embodied as contrasted with unembodied credit, and thus involve the question, what should be the form of the credit represented by the net terms?

It is claimed that the use of embodied credit, whether trade acceptance or note, makes a buyer realize his obligation to a greater extent. Hence he will be more cautious about incurring indebtedness, and will refrain from overbuying, at the same time that he avoids over-extending credit to his customers and is careful to collect more promptly from them. As a result, the merchandising system is improved, and is placed upon a sounder basis. These points are applicable primarily to the weaker buyer who must take the net terms, and appear more or less valid in such cases. On the other hand, however, it is stated that credit is made more liberal under the trade-acceptance system, as will be seen below, and the seller may also feel that he has greater security. Due to these two factors, he may put forth extra sales efforts which will offset

the feeling of caution on the part of the buyer. Over a period of time, these two conflicting tendencies doubtless tend to reach a point of equilibrium, and little clear cut advantage appears on either side.

It is further claimed that the use of embodied credit serves to close the transaction at once. The thought is that the note or trade acceptance gives finality and definiteness. It thus serves to avoid abuses of various kinds, such as returned goods, and to improve the general plane of commercial morality. But this raises two points.

1. How far is it possible or even desirable to do this? It is of course desirable to have the conditions surrounding the transaction clearly understood by both parties. Finality is possible in so far as products are standardized, but with other products an opportunity must be given for such adjustment and rectification as may be necessary. The seller should not be given leverage with respect to the buyer, but both should be placed on an even keel. Each party must have sufficient confidence in the honesty and uprightness of the other to render it possible to leave the transaction open in the manner indicated. Advance in commercial morality lies along the line of a better sense of square dealing on the part of both, rather than in any external aids. Whether the buyer gives a note or trade acceptance, which may be altered in the event of necessary adjustment, or leaves the amount run on open account, would appear to be of importance only in connection with those buyers taking the net terms who show themselves to be unscrupulous.

2. What is meant by closing the transaction at once, and in what manner should this be done? Advocates of the cash discount claim that it serves to close the transaction at once for as many accounts as possible. It furthermore does this and gives the seller cash without having him incur any liability, either contingent or direct, to the bank, such

as would be the case if he himself were to rediscount paper with it or to borrow from it while he held the receivables. This of course gives a different interpretation to "closing a transaction at once," stressing as the objective cash payment as far as possible, which might be supplemented by embodied credit on the accounts taking the net terms. The fields in which such cash payment is desirable were already considered in the preceding chapter, and the two points of view are not in fundamental conflict.

Composition of the Business Community.—Leave aside the form of the credit, and turn to the question whether or not a cash discount should be granted. This, as was seen in the preceding chapter, is a totally different matter. The indictment is often made of the cash discount system that the discount discriminates against the weak buyer with small capital, who is just starting in business and still has his spurs to win. Such buyers are penalized when they take the net terms, for the goods cost them more than they do well-established firms who are able to pay cash and take the discount. Were the cash discount abolished, and net terms alone quoted, all buyers would be placed on terms of equality, and the individual just starting in business would be given a greater chance of success. This raises many and varied questions of economic and social policy. What form of economic system is desired—one in which there are a large number of small independent business men, even if society as a whole may have to pay a higher price because of their inefficiency when they start in business, or one in which the business unit is allowed to develop to its point of maximum efficiency, and no effort is made to aid the small business man? When the acid test of actual experience is applied, the latter does not seem to have been very seriously handicapped in the United States, in spite of the prevalence of the cash-discount system for a number of decades.

Relation of the Borrower to the Bank.—The effects which the system of commercial credit has upon prices, and the relation of the system to banking, are really two separate problems. In considering the latter question, however, possible effects which different banking methods might have upon prices must be taken into account. It will therefore be well to introduce the question of prices at the appropriate point in the discussion of banking, and to plunge directly into banking now, instead of considering each question separately.

Neither the net-terms system nor the cash-discount system necessarily implies a specific method of borrowing from the bank. In either case, borrowing may be upon a promissory note, either straight or endorsed, or upon the receivables (to the extent that these exist in embodied form), either by rediscounting or by using them as collateral. It is generally held, however, that the use of the trade acceptance creates a special incentive to borrow at the bank by means of it. This is implied in the statement of trade-acceptance advocates that it substitutes "live" for "dead" capital. This has served to call attention to the question of borrowing from banks in several different forms, and the dangers which may attend such a practice when several banks, and perhaps the open market in addition, are employed by an individual firm. This is perfectly true with respect to the poorer credit risks, and serves to call attention to the need for careful scrutiny of credit in such cases. It is not an argument against the same individual borrowing in several forms.

Furthermore, the question has been raised, what effect has rediscounting upon the seller's statement, and upon the line of credit which he receives from his bank? It has been said that the bank will loan dollar for dollar on trade acceptances, and by thus taking them at full value, will increase the borrowing capacity on these accounts, inas-

much as they are not then figured in the 2 to 1 current ratio considered in determining the line of credit. This has been criticized by Mr. Bonham in the article cited above, as follows:

> If the bank is lending dollar for dollar on accounts receivable, as represented by trade acceptances, what would be the ratio for loans on his other quick assets, including merchandise stocks and past-due trade acceptances?

To this might be added the fact that the borrower has also assumed a contingent liability in rediscounting the acceptances. On the other hand, the funds received from the bank would appear in the borrower's statement, first as cash and then probably as merchandise, and would thus result merely in changing one class of quick assets, namely receivables, into another class. No additional direct liability would be incurred, and a contingent liability would merely be assumed. The latter would be the only way in which the credit standing of the borrower was weakened, and through which his line of credit should be affected.

Automatic Elasticity of Volume of Commercial Paper.—The thought is often expressed by advocates of the trade acceptance that the instrument will be automatically elastic, so to speak. Inasmuch as it is created as the result of a specific transaction, it will fluctuate in volume in response to the needs of business. To the extent that these acceptances are rediscounted with the bank, the amount of bank advances will also be automatically adjusted in this way. This in fact is true of receivables existing in the form of notes as well as of acceptances. The only advantage of the trade acceptance lies in the fact that it provides a distinctive form of paper to represent the extension of credit in this special manner, while the note may represent extension of credit for any one of a variety of purposes.

Automatic elasticity of commercial paper concerns the

banking system as a whole. As such, it is entirely distinct from the question which was discussed in the previous chapter, namely, the specific transaction as a basis for credit measurement. The thought is that in this manner the banking system will be able to operate safely. The proceeds of the promissory note may be used for speculation or for fixed investment, but the trade acceptance carries on its face evidence of the use which the buyer (who really receives the loan) is making of the funds. Moreover, there will be correspondence between the volume of bank credit and the volume of commodities exchanged, as evidenced by the volume of transactions shown in the receivables which are discounted. Commercial paper of this description provides a superior basis for the issue of hand to hand currency, the volume of which then also fluctuates in response to the needs of trade. Inflation is accordingly impossible, for bank credit based in this way upon commercial paper and fluctuating in amount with commercial and industrial requirements, cannot influence general prices. A great evil is therefore avoided.

But this view has certain outstanding defects. Too much reliance is placed upon mere form, and not enough upon actual substance. While the amount of paper should be the same as the volume of transactions, there is no guaranty that the maturities will be adjusted to the actual length of time required by the buyer in each transaction. In fact, it was seen in Chapter VIII that during the war speculators in the textile lines bought and sold goods on terms calling for a trade acceptance, the maturity of which far exceeded the time required for their turnover. As a result, in some cases several pieces of paper came to be outstanding against the same merchandise. Obviously, inflation can be brought about in this manner, as well as by lack of correspondence with the volume of transactions. Abuse of the trade acceptance in this way leads to disappointment on

the part of those who have paid attention to the claims made for the instrument, and who have come to expect that it shall operate automatically, instead of recognizing that the use made of any tool depends in last analysis upon the operator, and that he guides its destinies.

Effects upon General Prices.—The facts just mentioned from Chapter VIII indicate that in actual practice the trade acceptance may serve to make credit easier. In fact, trade-acceptance advocates often point to a result of this kind as one of the desirable accomplishments of the system they propose. They believe that this will follow because of the greater degree of safety achieved in the general banking and financial situation. The trade acceptances and other receivables discounted will not be considered as part of the borrower's regular line of credit, but will constitute an addition to that line. Leaving aside the fact that the claim of easier credit because of greater safety has been answered in the negative in the previous discussion, the effect of easier credit would be an increase in prices. But Professor H. G. Moulton of the University of Chicago has pointed out that, assuming that general prices or the price level varies inversely as the quantity of currency, both money and bank checks, the increase in prices would tend to be general, and would serve merely to raise the price level as a whole. While this would be true on the average, different goods would be affected unequally, and disproportion as between the prices of different classes would result.

Prices of Particular Goods.—This attempt to trace the effect upon prices of the trade-acceptance or net-terms system proceeds from what may be termed the currency side. Attempt has also been made to approach the question from the point of view of the cost of individual articles. This connection has been traced in several ways. It is said that risks are reduced and credit losses are less, so that

prices will be figured closer, and therefore will be lower. Inasmuch as the point would be more or less valid for all commodities, the prices of commodities in general would decrease. Again, it is claimed that safer banking methods would serve to reduce the rate of interest, and this in turn, as an element in the cost of goods, would tend to reduce prices, although but slightly. On the other hand, those who uphold the cash-discount system point to the great tendency to decrease in both profits and prices in the United States during the past 20 years. They also claim that the use of their system enables the merchant to turn his capital over more rapidly, but this of course would be accomplished as well through the immediate rediscount by him of receivables with the bank.

Finally, the relation of the cash discount to the selling price of goods has been considered. Opponents of the cash discount claim that it is merely added to what is a basic price for the merchandise, and that it thus serves to raise the average price paid for the goods. Advocates, on the other hand, claim that in last analysis prices are fixed by general competitive conditions, and that it is impossible for a seller arbitrarily to add this amount when figuring the price of his goods. Theoretically, as was seen in Chapter V, the basic price should be somewhere between the cash discount price (as it may be termed) and the net price, the range between the two being determined by the current rate of interest, the cost of credit work and the bad debt loss. Under ideal competitive conditions, the actual price realized would tend toward this basic price, although at any one moment more or less discrepancy would naturally be found. In any event, however, the discount would not appear to be a serious factor in increasing the prices of goods. It merely tends to result in making the merchandise somewhat cheaper to the best accounts and somewhat dearer to the poorer accounts than under a net terms system.

All in all, no clear cut effects upon prices necessarily appear to result from either the cash-discount system or the net-terms system. If credit were easier under the latter, the general price level would be higher, but in view of the analysis which has been made, it appears extremely doubtful whether credit would be easier in the long run. Similarly, neither system appears to exert special influence to either increase or decrease the prices of individual commodities. The trade-acceptance system does not seem, on the whole, to result in greater safety, hence the arguments for a tendency to lowered prices based upon that premise fall to the ground. On the other hand, the cash discount does not seem to be a potent factor tending to increase the price of goods. In short, the two systems of credit appear to be neutral in so far as influence on prices is concerned.

The Discount Market.—One question still remains: with which type of paper can the banking system operate most satisfactorily? Shall the basic type be single-name paper, or double-name paper of one description or another? Particularly is this question important in connection with that paper which circulates, so to speak, in the open discount market. Open-market paper must possess the highest degree of both safety and liquidity. It is in this connection that particular stress has been placed upon the fact that the trade acceptance bears two names. It is claimed that this results in paper much stronger than that bearing merely a single name, such as is found where a straight promissory note is used. But is the double-name feature actually of as great importance as is often claimed? The idea dates back to the classical writers on banking, who wrote, as Professor E. E. Agger has pointed out, in an era of free competition and small independent business. It assumed that both maker and acceptor were practically on the same credit level, so that the presence of the second name tended to double the security. But this is manifestly

not true of modern conditions. One party to a transaction frequently overshadows the other, and the second name adds strength only where it is better than the first. The stronger name governs the credit judgment passed upon the paper.

Moreover, is a trade acceptance, or in fact any form of obligation of a business house, satisfactory from the point of view of the open market? Can judgment be quickly reached upon the paper of thousands of names, comprising the entire business community? This does not raise the question whether or not a seller can satisfactorily extend credit, but considers whether absolutely safe and standardized paper, which shall be the best in existence, can be obtained in this manner. It is obvious that there is both too large an element of risk, and too great difficulty in arriving at a judgment as to the paper. For this purpose the guaranty of a well-known and responsible credit specialist is required. This may take the form either of a direct obligation of the specialist, such as the banker's acceptance, or of endorsement by him of the obligation of a business house. Furthermore, the ranks of the credit specialists may be by no means so broad as to include the entire banking community, but may comprise merely a select few instead. Where attempt is made to extend the ranks of the credit specialists too greatly, distinction comes to be made between them, and they are grouped into several classes of different degrees of standing. In the manner indicated, the paper appearing in the open market is standardized to the requisite degree, and enabled to circulate as far as may be necessary.

Conclusions.—In considering commercial-credit methods and the commercial-credit system, it is necessary to analyze carefully the several distinct conditions which are found, and the peculiar methods, forms of instruments, etc., which these call for. Analysis of this kind reveals the

fact that the cash-discount system is specially adapted to certain conditions, and serves a useful purpose in connection with them, while the net-terms system is peculiarly applicable under other conditions. Furthermore, when a survey is made of trade-acceptance development in the United States, a distinct tendency is found away from general and indiscriminate use of the instrument and toward careful consideration of its specific fields of use and the adaptation of it to these fields. An experimental process is going on, which recognizes that it is specially adapted to certain conditions, and endeavors to seek out these fields. Experience has demonstrated that its field of use is somewhat different than had previously been stressed, and that it is of particular service in connection with the collection of accounts. Accordingly, instead of being in conflict with the present system of commercial credit in the United States, when properly analyzed, it fits into and becomes an integral part of that system.

The campaign so earnestly waged by trade-acceptance advocates has served to call attention to commercial-credit problems, and to bring about careful analysis of them from every angle. A better understanding of them has been afforded. Not only have the technical aspects been thoroughly considered, but their relation to banking and the banking system is now better understood. It is realized also that these problems cannot be considered in isolation, but that effort must be made to trace their broader relation to and effect upon the entire economic system. If the trade acceptance movement had served no other purpose than merely to focus attention upon these questions, it would still have rendered worthy service to the cause of better American business practice.

A final lesson that this study of trade acceptance principles teaches is that the fundamental factor in credit granting is the recipient of credit, and not the form in

which the credit is extended or the agency by which it is measured. The buyer of goods and his standing in last analysis is the final touchstone, and no means exists by which a second-rate credit risk can be magically transformed into a first-rate one. All external aids or devices, such as the use of embodied instead of unembodied credit, while they have their place, are merely auxiliary and do not radically alter the fundamental feature—the underlying credit risk. Too great reliance cannot be placed upon them, nor are they automatic or mechanical in their operation.

PART III

TERMS NOW IN USE

CHAPTER XI

THE FOODSTUFFS INDUSTRIES

Part III will deal with the actual terms which are in use in leading industries. Each chapter will treat a group of more or less related lines. The terms situation in each will be described, and will be prefaced with such data as to marketing and business conditions in the industry as seem pertinent. Although specific reference will only be made in certain outstanding cases to the factors discussed in Part I, their application will readily be perceived throughout the discussion.

The present chapter deals with the foodstuffs industries.[1] This includes a group of products, certain of which are articles of food in the strict sense of the term, such as meats, flour and canned goods, and certain of which are more in the nature of luxury items, such as confectionery and tobacco. In all of them a part, and in most the bulk, of the product passes from the hands of the manufacturer through those of the wholesale grocer. Accordingly his terms will be discussed after those of the manufacturers in the several lines from whom he purchases.

Except for the general nature of the article, conditions in this group of industries are not similar. Extremely perishable goods tend to be sold directly by the manufacturer to the retailer, while a considerable proportion of

[1] Acknowledgment is due Mr. Sylvan L. Stix, of Seeman Bros., Inc., New York, and Mr. B. D. Crane, Secretary, Reynolds-Davis Grocery Co., Inc., Fort Smith, Ark., for reading this chapter.

other more durable goods passes through the wholesaler's hands. The former are on almost a cash basis, while the task of carrying the latter is often shifted to the buyer. Carload or large sized shipments of articles such as meats, flour and canned fruits and vegetables, usually carry sight- or arrival-draft terms. These terms naturally occur chiefly on sales to wholesalers or large consumers, and sales to retailers in many cases call for longer time. On the whole, however, open account terms generally do not run over 30 days, except for articles such as non-advertised brands of cigars and teas. Cash discounts are correspondingly small, and in many cases are not quoted.

Meat Packing.[2]—The various classes of meats are largely sold direct by packers to retail dealers. It is estimated that at the present time about 90 per cent of the fresh meat marketed in the United States is sold either by branch houses of the packers or by packer representatives. Cured meats, however, are sold to wholesale grocers (who in turn sell to retailers) in some country districts where the volume of business is small. The same is true of canned meats, but it is estimated that 80 per cent of the business in them is nevertheless direct. Wholesale grocers in the southern states, located at points not accessible to packer house branches, buy assorted carloads of dry salt meats, canned meats and lard. The small percentage of wholesalers in the country as a whole is usually located at other than packing centers, and the general character of their business is very similar to that done by the branch houses of the larger packers. Those dealers who are located in the larger northern cities usually handle principally fresh meats, smoked meats and lard.

Fresh meats are generally sold on a weekly basis, and in some cases collection for all deliveries during a given

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[2] Acknowledgment is due Mr. Frank D. Rock, Credit Manager, Armour and Co., for reading this section.

week is made by a specified day of the following week. Deviations from the regular terms, such as the use of terms of from 10 days to 30 days, are principally the result of competitive conditions. Cured meats, however, are sold to a considerable extent on longer time, usually 30 days. Dry salt, dry smoked and sweet pickled meats are almost universally sold on strictly net terms, whereas sugar-cured meats, that is, hams and bacon, are subject in some cases to a cash discount of ½ per cent for payment within 10 days, although in practice buyers seldom take advantage of the discount. These terms also obtain for lard, as well as for canned meats, although some packers grant a higher discount, such as 1 per cent, on the latter. Some dealers who buy both perishable products and provisions try to withhold remittances on all products for 30 days, or to settle on a monthly basis. Packers endeavor to obtain either prompt weekly or semi-monthly settlement, for example, by the 20th on all invoices dated from the 1st to the 15th.

In addition to this distinction according to the nature of the product, others are made according to the type of purchaser. Carload shipments are almost universally made against sight draft, bill of lading attached. Proximo terms, ranging from the 10th to the 25th, are at times employed in the case of sales (1) to municipal, state and government institutions; (2) to railroad, lumber and coal companies and cotton factors; and (3) to large general stores and wholesale grocers. The third group is easiest to control and most amenable to pressure on collections, the second less so, and the first least. Complaint is made that, in certain cases, payment is not effected for 2 or 3 months or longer. Terms to the retailer are also adjusted to local conditions, and "pay-day" terms are found in certain places, such as railroad, steel mill and mining towns, where the retailer carries the worker from one pay day to the next,

and where the due dates of his bills are adjusted to the pay days, frequently being semi-monthly.

Jobbers in the larger centers sometimes extend longer terms to retailers. They not infrequently grant 2 per cent 10 days, net 60 days, as compared with maximum terms extended by packers of ½ to 1 per cent 10 days, net 30 days, and they often also employ proximo terms. However, there is stated to be a tendency towards shorter terms.

Canning.—Canned products may most conveniently be divided into fruits and vegetables, soups, milk and fish. Most canners are very small in size, confine themselves to one or two products, and are located near the source of the raw materials to be canned. A small number pack a general line of fruits and vegetables, while there are a few very large packers who pack or handle practically every class of canned goods. Sales are made largely to wholesale grocers.

In 1911, committees representing the National Canners Association and the National Wholesale Grocers Association discussed the question of a uniform contract to apply to sales of canned fruits and vegetables by packers. The grocers submitted a contract calling for 2 per cent discount for sight draft with bill of lading attached, payable on arrival and prompt examination. This was acceptable to the canners, who agreed to favor its adoption at the meeting of the executive committee and at the annual convention. There have been a number of conferences since then, but no absolute uniformity of terms has prevailed in consequence. State associations of canners in several cases, such as Wisconsin and California, have recommended contracts for use by members. A study made several years ago states that the question of rates of discount has frequently been discussed at the conventions of such associations, and that many canners have favored a lower

rate while many have also advocated shorter credit periods.[3]

The older terms which prevailed for many years in the canning industry were 1½ per cent 10 days, net 60 days, except on the Pacific Coast, where the net terms were largely 30 days. During the past decade, however, wholesale grocers have often urged packers to increase the discount. In consequence, a considerable number of packers began to allow a cash discount of 2 per cent in cases where a sight draft with bill of lading attached was used. The latter terms are frequently found in New York, Ohio and the middle western states included in Federal Reserve district No. 7, although in some instances the 2 per cent discount is allowed instead when payment is made on arrival of the shipment. As a result of this change in terms, three optional dates of payment are now granted by some packers: 2 per cent for payment of sight draft; 1½ per cent for payment on arrival or within 3 days after arrival, or within 10 days from date of invoice; and the usual net terms.

Besides the increase in the discount, the only other general change in terms has been the shortening of the net period in many sections from 60 days to 30 days. Only in some localities, such as Maine and Colorado, have the former terms continued in use. In some sections a draft is used where a cash discount of 1½ per cent 10 days is quoted, but certain packers use the draft only where buyers are unreliable. In some cases, discount terms only are quoted, and no net terms are specified.

Each of the other principal classes of products has certain regular terms. Canned soups are sold on terms of 1½ per cent or 2 per cent 10 days, net 30 days. Several

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[3] Report of the Federal Trade Commission on *Canned Goods; General Report on Canned Vegetables and Fruits,* May 15, 1918, pp. 82-83.

years ago one of the leading manufacturers increased the discount from 1½ per cent, and some manufacturers increased it in 1917, from 1 per cent, in response to constant requests from organizations representing the purchasers. Some Pacific Coast customers receive the discount for remittance within 3 days after arrival of the goods. Preserves, ketchup, sauces, pork and beans, etc., are generally sold upon terms of 1½ per cent 10 days, net 30 days, although discounts of 1 per cent and 2 per cent are also used. An exception to these terms is found in the case of a leading manufacturer of these products, who eliminated his cash discount about 1917, and now sells only on terms of net 30 days.

Terms on condensed and evaporated milk are generally 2 per cent 10 days, net 30 days. Prior to April, 1911, the discount was largely 1 per cent, the change being due in considerable measure to the efforts of the wholesale grocers.

Terms on canned fish, especially salmon, are usually 1½ per cent 10 days, net 30 days. Southern California packers of tuna and sardines have the same terms, except that they use a sight draft with documents attached, payable within 15 days from date and provide that if the shipment arrives prior to the maturity date, payment shall be made within 3 business days after arrival.[4] Terms on Maine sardines are 1½ per cent 10 days, net 60 days, while some minced razor clam packers on the north Pacific Coast grant a 2 per cent discount, although most allow only 1½ per cent. It will be seen that the terms on canned fish are thus substantially similar to those prevailing for the other canned products in each locality.

Flour Milling.[5]—Many of the large flour mills maintain

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[4] These terms are similar in large measure to those previously adopted by the Canners' League of California, and in effect prior to March, 1918.

[5] Acknowledgment is due Mr. J. H. Mulliken, of Washburn-Crosby Co., for reading this section.

branch offices in the important distributing centers to market their output to the retail grocery and baking trade. Several of the larger mills sell 30 per cent of their output in this way, the remainder going to jobbers and wholesale grocers. On the other hand, the milling process is simple, and the cost of milling equipment, on the whole, is comparatively small. Many small mills therefore have been constructed and are operated throughout the country, and, except in New England and a few Southern States, still supply a considerable part of the local demand.

There are two corresponding types of terms, according to whether carload shipments are made or whether the flour is sold locally. Carload shipments are usually made against arrival draft, with order bill of lading attached, although sight draft is also used. In some cases, an arrival draft has been used for shipments to distant, and a sight draft for shipments to nearer, territory. Little use is made of time drafts, although these were sometimes used in the past in combination with a sight or arrival draft, so that, for example, the terms might call for payment of ½ the amount through arrival draft and the remainder through a 30-day draft.

There has usually been a price differential, generally amounting to 5 cents per barrel, but sometimes 10 cents, for payment by sight draft instead of arrival draft. Often, however, the use of such a differential depends upon the distance for which shipment is made. One authority has stated that it is customary only for millers located west of the Mississippi River where cars are long in transit. A higher differential is employed in certain cases where a 30-day draft is used. In case of sales to state institutions and large corporations where remittance is made from the main office, as well as sales to firms located in places where there are no local banking facilities, the use of a draft is dispensed with and remittance upon arrival is

specified instead. In view of recent good transportation conditions, it is believed, however, that few mills now make a differential between sight and arrival draft terms.

Mixed carloads of flour and feed are usually sold on arrival-draft terms, but for straight carloads of feed a sight draft is used.

A different practice, however, is found in the case of less than carload shipments and local deliveries, either from millers or their branch houses. These sales are usually made on open account. Thirty days is frequently specified, although some variations are found, such as the use of 20-day terms, semi-monthly and weekly settlements, and proximo terms. In a few cases, C. O. D. and net 10-day terms are also used. For sales of this kind, a cash discount is rarely given, but may amount to 1 or 2 per cent 10 days where net terms are 30 days. In place of a cash discount of this kind, the use of a price differential, such as 10 cents per barrel for payment within 10 days, is also reported.

These two classes of terms—arrival draft and net 30 days—are generally used in the trade, in particular by the larger middle western millers. In several sections, however, certain variations are found. In the Southeast, there is considerable use of both open account and trade acceptance, the latter showing relative gain since 1917, at the expense of the open account and arrival draft. Most of these acceptances are for 30 days, and a small number for 60 days, but 90-day acceptances are very rare. In some cases, attempt is made to obtain an increased price, ranging from 10 to 20 cents per barrel, where acceptances are used. Local open accounts are generally collected twice, but sometimes only once a month, but open accounts in interstate business generally run for 30 days.

In Texas, the open-account system is largely used for carload shipments, which are mainly mixed cars, as well

as for less than carload lots. Carload shipments are estimated to comprise 80 per cent of the business. The majority of the accounts run for 30 days. Texas millers ascribe the origin of this system (instead of the arrival-draft system, which is in general use in other sections) in considerable measure to lack of capital on the part of the retail buyer, while subsequently highly competitive conditions have also operated to prevent attempts to substitute the draft. From September, 1917, to July, 1918, the business was on a cash basis, but the old custom has since been restored.

In the Pacific Coast and inter-mountain territories, distinction in terms is made, not between carload and less than carload shipments, but between inter-territory and "outside" shipments, that is, to territory east of the inter-mountain states. Sales to local territory are estimated to amount to 90 per cent of California, 75 per cent of Oregon, 100 per cent of Seattle, 25 per cent of Spokane and 25 per cent of Utah business. Sales to outside territory are largely made against arrival draft, although the sight draft is also used by California millers. Sales on open account, usually running 30 days, are confined almost entirely to local business.

It has been stated that up to 4 years ago practically all flour in the Northwest was sold on open account, due to the necessity of the flour manufacturer financing the retailers. This was attributed to

the country merchants being small and being required to carry ranchmen and logging concerns for larger amounts and longer periods than is necessary for the dealers in the middle west; to poorer roads in the country districts requiring larger accumulation of stocks for winter consumption; to seasonal weather conditions in Alaska requiring larger accumulation of stocks, and to the necessity of salmon canneries purchasing canning season's requirement of flour in spring and early summer to be transported

at the time other cannery supplies are provided for remote canneries along the coast here and in Alaska.

During the last 2 years, however, acceptances have also been used, running for 30 days in the Oregon, Seattle and Spokane districts and not over 45 days in Utah. In Oregon and Seattle, local sales are now generally handled by acceptances, but in California nearly all local sales are made on 30-day open account. In several of these districts, the use of a cash discount, such as ½ per cent, for payment within 10 days after delivery, or the use of a price differential where arrival draft terms are employed, is reported. In addition to this local testimony, several middle western millers also report changes in terms which have taken place in the inter-mountain territory. It is stated that during the past several years arrival draft terms have been replacing the former 30 to 90-day open account terms on carload shipments to these sections.

Sugar Refining.—Refiners sell refined sugar largely on terms of 2 per cent for payment within 7 days after arrival of shipment, but prior to 1911, the discount was 1 per cent. The eastern refiners first changed in April, while beet sugar refiners followed later in the year, the terms to apply to new-crop sugars. The change was due to representations from wholesale grocers, extending over a considerable period of time. This business had been considered unprofitable, and it was estimated at that time that it comprised about 20 to 25 per cent of their total business. It was stated in 1910 that the gross return on it was not over 3 per cent, as against an average cost of doing business of 6 per cent.[6]

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[6] This estimate, however, is considerably less than figures obtained in a study made a number of years later. Total expense for 108 firms, chiefly for the year 1916, ranged from 6.7 per cent of net sales to 13.74 per cent, 9.5 per cent being most common; for 145 firms for 1918 from 6.15 per cent to 14.79 per cent, 9.1 per cent being most common; and for 159 firms for 1919 from 4.35 per cent to 14.71 per cent, 9.1 per cent being most common.—Harvard University Bureau of Business Research, Bulletins No. 9, No. 14 and No. 19.

The only frequent departure from these terms is in the case of local deliveries by truck, where 10 days from date of delivery is generally given.

Coffee, Tea and Spices.—Most coffee roasters, as well as spice grinders, import to a greater or lesser extent. Wholesale grocers as a rule buy coffee and spices from the roasters and grinders, although a considerable number do their own roasting and some import these items as well. Practically all importers of spices also act as jobbers. Sales are made largely to grinders, who put up the product in small packages, and to canning factories. Grinders sell largely to wholesale grocers, although they also make some sales to jobbers and retailers.

Green coffee is largely sold on a 90-day basis, with a discount for anticipation at the rate of 8 per cent per annum, which amounts to a 2 per cent discount for cash. A considerable amount of coffee is also imported on a cost and freight basis. In this case a net price is quoted the purchaser at the foreign port of shipment on presentation of shipping documents under an irrevocable letter of credit previously issued. Small jobbing quantities, namely lots of less than 250 bags, almost invariably carry a 1 1/2 per cent discount. In some cases, full settlement is insisted upon in 30 days. Sales of roasted coffee to jobbers usually carry terms of 2 per cent 10 days, net 60 days, and sales by wholesalers to retailers, whether the coffee is in packages or in bulk, are generally made upon the same terms, although in recent years a considerable number of firms have reduced the 60-day terms to 30 days. It has been stated that "it is the general opinion of the trade to make the terms standard (both for tea and coffee) and the practice is 30 days net with a discount of 1 per cent." Several firms state that they use these terms.

Terms on tea are longer and larger discounts are allowed than on coffee. Importers grant jobbers time running from

60 days to 4 months, large use being made of terms of 3 per cent 10 days, net 4 months. Considerable business is also done on 3 per cent 30 days, and it has been stated that up to 1 or 2 years ago the amount sold on such terms was as great as that sold on 10 days' time. Sales by wholesalers to retailers also carry varying terms, the cash discount running from 2 to 5 per cent and net terms from 60 days to 4 months. Three per cent 30 days is often found, while some houses continue to give 4 per cent 10 days, net 4 months, but the latter terms are confined largely to sales to small jobbers. Some instances of a shortening of terms are reported, such as, for example, to 2 per cent 10 days, net 60 days.

Sales on whole spices by importers for many years have carried terms of 1/2 per cent 7 days, net 30 days, purchasers customarily discounting their bills. The grinders, however, usually sell ground spices on terms of 1 per cent 10 days, net 30 days, but in some cases they give a discount of 2 per cent. Whole spices on sales to the retail trade usually carry terms of 1 per cent 10 days, net 30 days.

Confectionery.[7]—Manufacturers of candy sell both to wholesalers and retailers. There is a difference of opinion as to the relative proportion of sales to each class of purchasers. Some estimates place sales to wholesalers at slightly less than sales to retailers, while others believe that sales to wholesalers are far in excess. Bulk candies, packed in pails and barrels, are sold chiefly to wholesalers, but a considerable proportion of package goods, such as fancy chocolates, are sold direct to retailers.

Terms to the wholesale trade are usually 2 per cent 10 days, net 30 days. A very considerable proportion of business, however, is done on 60-day terms. It is stated

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[7] Acknowledgment is due Mr. Walter E. Hughes, Secretary-Treasurer, National Confectioners' Association of the United States, for reading this section.

that sales in some cases now carry a 15-day discount period, while most of such sales bear proximo terms. It is estimated that about 50 per cent of sales of the wholesalers, in general, are discounted, but in New York State, manufacturers place the proportion at from 70 to 80 per cent.

Manufacturers' terms to retailers are generally the same as those given to wholesalers. Manufacturers and wholesalers selling retailers in the Rocky Mountain and Pacific Coast States, about two or three years ago, began to give them a discount of only 1 per cent, but the old terms have again been restored.

Wholesalers' terms to retailers are somewhat longer in certain cases than are terms given by manufacturers to wholesalers. Sixty days is stated to be frequent, although the terms are largely 1 per cent 10 days, net 30 days. Several variations are found. In some sections a 2 per cent discount is allowed, while in other sections a discount is granted for semi-monthly settlements when salesmen call.

Tobacco Manufactures.[8]—There are two principal classes of tobacco products—cigars, and the so-called manufactured products, comprising cigarettes, snuff, chewing tobacco, plug, twist, etc. Several large manufacturers dominate the latter industry, and well-advertised brands are the rule. In the case of cigars, however, the situation is different. Much greater difficulty has been experienced in adapting machinery to the manufacturing process, and there are over 1,100 cigar factories. A considerable number of cigars are, of course, sold under well-advertised brands, but this is by no means the rule in the industry.

The terms in use reflect this situation. Terms on the manufactured products have been practically standardized for a long time at 2 per cent 10 days. These terms apply both to sales by manufacturers and sales by jobbers.

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[8] Acknowledgment is due Mr. Charles Dushkind, Managing Director, Tobacco Merchants' Association of the U. S., for reading this section.

Practically all dealers take advantage of the cash discount; supplies, with the exception of rural districts, are purchased from week to week, and in sales to the small trade the discount has already been deducted when quoting the price. On the other hand, terms with respect to cigars are of two kinds. Well-advertised brands carry approximately the same terms as do cigarettes, namely, 2 per cent 10 days to 30 days. Recently some manufacturers who sell only to jobbers have come to a net 10-day basis. The other brands, however, carry longer terms and there is little standardization. Terms to the jobber vary from net 10 days to net 30 days, with a cash discount of from 1 to 2 per cent in certain cases, and the jobber generally takes the discount. Jobbers usually grant retailers longer terms.

Wholesale Groceries.—Wholesale grocers handle a great variety of articles, and the business thus often differs considerably from house to house. In some of the large markets, such as New York and Chicago, there are manufacturing jobbers who do, to a great extent, a national and semi-national business, and traders who sell staple goods practically for cash at cut prices, in addition to houses which do the usual wholesale grocery business. In the Middle West and West, houses are more or less generally of the last type. In these sections, moreover, less competition is experienced from exclusive tea and coffee and other specialty jobbers than in the more thickly populated territories.

Organized activities of wholesale grocers with respect to terms of sale have taken a twofold direction—in connection with their purchases and with their sales. In 1907, the year after it was founded, the National Wholesale Grocers' Association created a Committee on Discounts, which numbered among its activities consultation with manufacturers in an endeavor to obtain more favorable terms. The subsequent year a Standing Purchase Discount Committee

was created to carry on this work, the name being changed in 1914 to Discount for Cash Committee. The general aim throughout has been to obtain a cash discount of 2 per cent upon the articles purchased by the wholesale grocer. This has involved effort to increase discounts upon certain commodities, and protest when manufacturers sought to decrease or eliminate discounts previously in effect, as well as effort to institute a discount for others previously sold upon net terms. In the instances remarked above in connection with various food products, of increase in discount as a result of representations from wholesale grocers, the latter were in general represented by the committee mentioned above. Prominent among the commodities for which effort has been made to obtain increased discounts may be mentioned rice, canned goods, sugar, California dried fruits and nuts, beans, sirup and molasses, macaroni, etc. In order to obtain the larger discount, the grocer is willing to pay prior to arrival of the goods. The committee has frequently and strongly called attention to the necessity for prompt payment within the discount period. Grocers in large measure take advantage of the cash discounts offered on their purchases and it is generally held that the firm which does not do so is not in a position to make a net return on its investment, as net profits in many instances are stated to equal the amount of the cash discounts received.

With reference to its construction of the term "discount for cash," the National Wholesale Grocers' Association states that "a discount for cash is regarded by the wholesale grocer as a banking proposition or practice." It considers that the 2 per cent discount commonly granted the wholesale grocer is not excessive as compared with discounts in certain other lines, and is fully justified by the advantages which it holds accrue to the grantor of the discount. It states that it points out these advantages,

"leaving it for the particular manufacturer to determine whether it would be to his own advantage and sound business policy to adopt the discount for cash as a part of his sales policy. . . . Among these advantages are the elimination of the credit risk and of the moral risk, not to mention the development and maintenance of a spirit of good will between the buyer and seller. In addition to the immediate use of the money, the advantages from the elimination of the credit and moral risks are perhaps the most evident considerations involved, obviating, as they do, the cost of a considerable amount of expensive credit machinery, which cost increases whenever credit terms are lengthened, and whenever the proportion of the entire business done upon a credit basis increases. It is held also that the practice is financially and economically sound, in that it releases capital for constructive work and makes it possible to increase output and turnover and thus reduce cost to the trade and the public."

In connection with terms upon the products he sells, the activities of the wholesale grocer have again taken a twofold direction. He has considered both the cash discount and the net terms. The guiding principle in the former case has been to avoid as far as possible granting a larger discount than is received upon the commodity. In the latter case there has been a consistent effort to shorten terms, 1 per cent 10 days, net 30 days being the goal, as well as emphasis upon the need to insist upon prompt collections. The opposition of the wholesale grocer to the use of the trade acceptance is due in large measure to belief that terms would be lengthened through its use. Considerable attention has been directed to the matter of shorter terms during the past several years. At least 12 state and district wholesale grocers' associations, located principally in the Middle West and West, now obtain from certain of their members monthly reports showing the per-

centage of outstandings, that is, accounts and notes receivable at the close of the month in question divided by sales during the month. The shortening of terms and increase in promptness of collections are illustrated by the figures already given.[9]

During the years 1908-1910, inclusive, there existed a Sales Discount Committee of the National Wholesale Grocers' Association, which considered the question of terms upon the commodities sold. In the wholesale grocery line, the construction of a set of terms involves fixing several standard sets of cash discounts and net terms, and classifying thereunder the commodities handled, each commodity being assigned to one of the sets of terms. The matter was discussed at the 1918 convention, at which the committee presented a report favoring 1 per cent 10 days, net 30 days for the general line, with terms of 1 1/2 per cent 10 days, net 60 days for domestic canned goods, soap, coffee, ground spices, etc., and 3 per cent 10 days, net 4 months, for teas in original packages, while terms on tobacco manufactures were optional. The discussion which followed revealed considerable diversity in existing practice, such as employment of a 15-day period in place of 10 days, due to use of salesmen calling on the trade about every 2 weeks in making collections, and non-adherence to the discount period, as well as in the West large use of a 2 per cent discount upon items, such as canned goods, for which the report permitted 1 1/2 per cent. Nevertheless, the committee report recommending the employment of such terms was adopted. The report of the committee at the following convention showed considerable adherence to the classification, although the 1 1/2 per cent discount had not been adopted by a large territory in the Middle West and far West. While the desire appears to have been to have the terms adopted by the several state and district associations,

[9] P. 100.

only two specific cases of endorsement were noted. This ended the activity of the National Association with respect to this matter. At the 1910 convention, the committee report called attention to the importance of the subject, and suggested that the wholesale grocers, each for himself, should see that sensible business methods were adopted as to discounts. Thereafter, the field was left entirely to the state and district associations. At least 12 of the latter, in particular in the Middle West and West, have adopted standard classifications which were recommended for the use of members. This is ascribed by a leading authority largely to the competitive conditions noted in the opening paragraph of this section. It should also be stated that these associations are in large measure those which prepare reports of outstandings.

The classifications are supposed in certain cases to represent current practice, while in other cases desirable changes may be introduced, although not yet in current use. Changes have been made by a considerable number of these associations during the past several years, most frequent being the elimination of 60-day items. In some localities, terms are now considerably shorter than called for by the classification, although the latter has not been revised. In others there has been persistent effort to shorten terms, although no formal action has been taken. Among the associations which have prepared classifications, there is practically universal agreement upon general terms of 1 per cent 10 days, net 30 days for the majority of items. A conspicuous exception is southern California, where terms of 1 1/2 per cent 15 days, proximo, net 60 days, prevail, the terms of 1 1/2 per cent 15 days, net 30 days having been changed to 1 per cent 10 days, net 30 days in northern California August 1, 1918. In other cases "proximo" and semi-monthly terms are also specified, in particular for aggregate purchases, as well as in some

cases 1 1/2 per cent discount and in other cases a 15-day discount period. In one instance distinction is made between city and country sales, semi-monthly settlement with 1 per cent discount prevailing for the former, the regular terms of 1 per cent 10 days, net 30 days for the latter. In another case 1 1/2 per cent is given in cities upon all items for settlement either weekly or semi-monthly, such as the 5th and 20th, as compared with discounts of 1 and 2 per cent, according to the item in question, for country sales.

Turning to several of the more important items for which different terms are specified, domestic canned fruits and vegetables in certain sections carry a discount of 1 1/2 or 2 per cent, although canned meats and soups and condensed milk carry only 1 per cent. When sold in a larger way, and by the wholesaler more or less in competition with the canner, domestic canned fruits and vegetables ordinarily carry a discount of 1 1/2 or 2 per cent. While 30 days is generally the time within which bills are due net, 60 days is specified in several cases, as well as a 1 per cent discount in others. A recent study extending over 5 years and covering over 1,000 retail grocers shows that over two-thirds of the retailers purchased their supply of canned fruits and vegetables entirely from wholesale grocers, while over 20 per cent additional so purchased at least part of their supply.[10]

Flour largely carries net 10 day terms, although in some cases 30 days is specified. The study above referred to shows, however, that a considerable amount of flour is purchased direct from manufacturers by retail grocers. Over 35 per cent of the latter bought all their flour in this manner, and of about one-third who did not make exclusive purchases from manufacturers, a large majority bought over one-half direct. Sugar in considerable measure carries

[10] Bulletin No. 13.

the general terms, although in some instances net 10 days and net 30 days occur. In Chicago 1 1/2 per cent 10 days is generally given (although not adopted) and in California an allowance per 100 pounds is made, amounting prior to August, 1917, to 15 cents 10 days in southern California and 25 cents 10 days in northern California, and since that time in southern California to 10 cents for payments by the 10th and 25th, in northern California to 10 cents 15 days (changed August, 1918, to 10 days). The study above referred to showed that sugar is purchased mainly from wholesale grocers, over four-fifths of the retailers purchasing their sugar exclusively from that source. Meats and lard, a decreasing percentage of which is purchased from wholesale grocers, in general bear terms of net 10 days. However, net 30 days is given in some instances.

Coffee usually carries a 2 per cent discount, while 60 days instead of 30 days is the net period in certain cases. Forty-eight per cent of the retailers included in the above study purchased coffee exclusively from coffee roasters and specialty wholesalers. Tea carries a 2 per cent discount in many cases, although this is confined in some instances to package teas or teas in less than original amounts. Four per cent 10 days, net 4 months is sometimes given on teas in bulk or in original packages. According to the above study, 36 per cent of the retailers purchased tea only from the wholesale grocer, while 15 per cent so purchased a part of their requirements. Whole spices generally bear the "regular" terms, while ground spices carry instead a 2 per cent discount. Tobacco, which over 60 per cent of the retailers bought exclusively from wholesale grocers, in practically all cases bears a 2 per cent discount, while net terms are 60 days in several cases.

A considerable amount of information obtained shows that terms actually in effect correspond roughly to those prepared by the several associations. In certain sections a

considerable volume of business appears to be done on 60-day terms, while in various parts of the South and West (specific instances being reported from Georgia, Arkansas and Idaho) notes are taken, and the retailer may be carried until maturity of crops in the fall. Terms as a rule granted in the South have been approaching closer and closer to those in effect in other parts of the country. In general, a large percentage, in many cases over 50 per cent, of the retail grocers take advantage of the cash discount. A good check upon data as to the length of terms actually in use is afforded by the statements of percentages of outstandings prepared by the several associations. While discounted accounts serve to reduce the percentages, an idea is given of the promptness with which collections are made. Returns for the several states vary considerably, but fall naturally into two general classes, those with average percentage ranging at present roughly from about 70 per cent to 100 per cent, and those with average percentage ranging at present roughly from 105 to 125 per cent or more. In the former group fall the middle western states, in particular those included in Federal Reserve district No. 7; in the latter several eastern and southwestern states and California. This by no means implies homogeneity in terms within any given group. Wide variation is shown in the reports for the individual houses: the extreme percentages in the California report for February, 1922, were 72.2 and 186.0. It is in this connection that the policy of the house, the kind of trade it solicits, and the items which bulk largest in its business must be considered. Thus also weekly terms may in certain cases be made to restaurants, while the summer hotel trade may obtain a dating of several months on purchases of canned goods, etc.

CHAPTER XII

THE METAL INDUSTRIES

The present chapter deals with a group of articles which, while closely related in their origins, are in very different forms. It includes both metals in their primary state, staple manufactures of these metals, such as steel rails and zinc sheets, and their more highly diversified manufactures, such as hardware and machinery. All of them, however, are used for industrial rather than consumptive purposes in the ordinary sense of the term. Hardware alone provides a point of contact with the small purchaser.

The articles may be grouped into three classes. Each class has its distinctive features and its distinctive terms. First are the metals and their staple manufactures. On the primary forms, terms closely approximate cash, while they lengthen as the degree of manufacture increases and the articles are sold in smaller lots to weaker purchasers. Second are the highly manufactured articles of relatively small size, such as hardware, mill supplies and "machinery." Unlike the first class, they are largely distributed through jobbing channels, although dealers in "machinery" are manufacturers' representatives rather than dealers in the strict sense. Net terms vary in length from 30 to 60 days, except for "machinery," where the period is 30 days. Third are the larger manufactures, such as machinery proper, railway equipment and ships. These are generally sold on a cash basis, or what practically amounts to one, in that periodical payments are specified as the work progresses. At times, credit is given, and several

notes with varying maturities may be used. In such cases, it is usual for the selling manufacturer to retain title and use a chattel mortgage, conditional sale or lease agreement.

Iron and Steel.[1]—The general organization of the iron and steel industry is well known. Many large firms exist which manufacture a great variety of products for the market, and themselves produce the pig iron and semi-finished steel products out of which they make the more highly manufactured articles. Terms in general have been in effect for a considerable number of years and substantial uniformity in terms now exists. Prior to 1900, which date may be taken as the beginning of the movement towards consolidation in the industry, terms were considerably more irregular and were often adapted to meet the special needs of the customer, extended time, such as from 4 to 8 months, with correspondingly high cash discounts, being frequently given for certain classes of products.

In considering the terms now in use, it should be noted that broadly speaking the cash discount is greater for the more highly finished products, which are sold both in smaller lots and to different classes of purchasers than are the semi-finished products. It is stated, moreover, that the commodities bearing only a 1/2 per cent discount are sold on a close margin of profit.

Pig iron, whether steel-making, such as basic and Bessemer, or foundry or forge, is sold upon terms of net 30 days from date of invoice or average date of monthly shipments. The larger proportion of the steel-making pig iron, however, is transported in molten condition to steel works, and steel products during the initial stages of rolling, such as ingots, blooms, and slabs, are in large

[1] Acknowledgment is due Mr. T. H. Taylor, Assistant General Sales Agent, American Steel and Wire Co., and Mr. J. P. Bender, Credit Manager, Bethlehem Steel Co., for reading this section.

measure not commercial products. Terms for billets, blooms and slabs, into which the ingot is rolled, are largely 1/2 per cent 10 days, net 30 days.

Terms for heavier rolled products differ. Standard rails are sold on terms of net 30 days and light rails on terms of 1/2 per cent 10 days, net 30 days, while the latter terms obtain also for structural shapes and plates. Standard shapes are sold to constructors of buildings and builders of bridges, ships, cars, etc., while plates are sold to the same group, as well as to manufacturers of boilers and tanks. Light-rolled products, such as merchant and sheet bars and wire rods, generally carry terms of 1/2 per cent 10 days, net 30 days, and these terms have been in effect for many years. It is stated that about 1900, no discount was given on wire rods. Certain types of merchant bars are sold to hardware jobbers, but large quantities are also sold to manufacturers of agricultural implements, vehicles, etc., and some are further manufactured into bolts, nuts, spikes, etc. Sheet bars are rolled by purchasers into black sheets, used for roofing and making stovepipe, receptacles, etc., and into black plate used in the manufacture of tin plate. Wire rods provide the raw material for the wire and wire goods industry.

Rivets (1/2 inch and larger in diameter) and spikes carry terms of 1/2 per cent 10 days, net 30 days; bolts, nuts, and rivets less than 1/2 inch in diameter, terms of 1 per cent 10 days, net 30 days. Track bolts and specially designed bolts, however, carry in considerable measure terms of net 30 days, though the former in certain cases bear a cash discount of 1/2 per cent 10 days. The manufacture of these products is relatively concentrated. There are not over 25 producers of bolts and nuts, of whom all but 3 or 4 now adhere to the terms given above. About 1912, an unsuccessful effort was made to reduce the discount and net terms on this item from 2 per cent 10 days,

net 60 days, but a similar effort several years later succeeded. This was in spite of the strong resistance of the hardware jobbers, who, however, handle only a small part of the total output, the major part being sold direct by the manufacturers to industrial consumers. It is stated that prior to 1914 or 1915, the discount on rivets was generally 1 per cent.

Wire products, including wire rope and smooth, barbed, and twisted wire, nails, and woven wire fence and netting, carry terms of 2 per cent 10 days, net 60 days. Similar terms obtain for welded tubes, pipe, and other welded tubular products. In the case of purchasers to whom frequent shipments are made, monthly payment is permitted, terms then being 2 per cent 10th proximo. Seamless tubes and other seamless products carry terms of 2 per cent 10 days, net 30 days, although in the case of contracts for a considerable periodical supply of seamless cylinders the net terms are increased to 60 days. Sheets and tin mill products, including black sheets and tin plate, are sold on terms 2 per cent 10 days, net 30 days. These terms have been in effect for 12 to 15 years, prior terms having been respectively 2 per cent 10 days, net 60 days and 1 per cent 10 days, net 30 days.

Copper, Lead and Zinc.[2]—For the present purpose, the distinguishing characteristic of the markets for the non-ferrous metals in their primary forms may be considered to be the absence of standardization, both in marketing practice and in terms. A large speculative interest has always existed in copper and in zinc, particularly in the former. In lead, on the other hand, there is relative concentration of production. The producing companies are only 12 in number, one of them produces 35 per cent or more of the total output, and "its policy is to conduct a

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[2] Acknowledgment is due Mr. C. J. Trench, Editor, *The American Metal Market*, New York, for reading this section.

business made stable by maintaining regular customers and prices as nearly constant as conditions permit." It is stated that only 5 per cent of pig lead finds its way into the hands of jobbers for resale. In copper and zinc, however, the percentage so handled is much greater. Estimates place the figure for copper for 1919, at somewhere around 20 per cent of the total output, and this is stated to have been larger than normal. A very much larger percentage of the output of zinc, estimated at from 50 to 60 per cent, passed through the hands of dealers at that time, but at present they are probably not handling over 20 per cent. In 1920, dealers handled a large portion of the export trade, but there has been virtually no export business for a year, and dealers' operations in the domestic market have also fallen considerably. The proportion handled by jobbers thus varies considerably from time to time. It is a well-known market fact that since 1919 the copper producers have been limiting strictly the amount sold to jobbers, in order, it is said, to avoid a repetition of the situation existing at that time when the jobbing interests to whom sales had been freely made dominated the market. The general practice varies among the different producers, some of them pursuing the same policy as the lead companies.

The effect of these factors upon terms may be summarized by stating that, strictly speaking, for these metals there are no "regular" terms, such as exist in many other lines. While producers prefer cash against documents, they endeavor to meet the wishes of their customers, and, as a rule, are willing to sell on the terms preferred by the latter, provided payment is made within 30 days from date of shipment.

Producers' terms on ingot copper vary. Instances found are cash against documents, cash on delivery, sight or arrival draft, 10, 20, or 30-day draft, and up to 30 days' open account. Formerly 30 days from arrival was also

given; but this was changed, about the opening of 1920, to 10 days from date of shipment if made from an eastern refinery and 30 days if made from a far western refinery. This eliminates the financing by the producer required under the earlier terms, also disputes as to what constitutes date of arrival, which were frequent. Prior to the war, a discount of 1/2 per cent 10 days was usually granted large consumers, net terms being 30 days, but this was largely eliminated during the war, copper being sold chiefly on a cash basis. Producers are again allowing large consumers 30-day terms.

Pig lead is sold by the larger producers on terms of cash on arrival at the buyer's plant, a sight draft with bill of lading attached being used in most cases with instructions to the bank to hold the draft awaiting the arrival of the shipment. A small percentage of sales call for cash in 10 or 15 days from date of shipment.

The larger producers' terms on slab zinc are similar to those allowed on lead. Sales of prime western zinc during the early part of the war, when scarcity existed, were almost wholly on sight draft. Cash on arrival or sight draft are, however, by no means exclusively employed. Terms in some cases vary from net 10 days to net 30 days from date of shipment, according to length of time required for delivery. It is stated that since the middle of 1917, when prime western zinc has been in free supply, leading consumers have been able to re-establish such terms. It may be noted that they by no means always involve a longer period than in the case of cash-on-arrival terms, as shipments from western centers to eastern consuming works are frequently 3, 4, or 5 weeks in transit. High-grade zinc, which is used extensively to make the better quality brass and for rolling sheets, largely carries a cash discount of 1/2 per cent for payment within 10 days from date of shipment, or in some cases with sight or 10-day draft. In

special cases the terms to purchasers of high standing are made 1/2 per cent 10 days, net 30 days. There has been a movement during the last several years looking to the formulation of standard terms for the industry.

Jobbers' terms on copper and zinc are stated to be largely 1/2 per cent 10 days, net 30 days, although on carload lots in competition with producers net cash on arrival may be specified. Pig lead is sold largely on terms of net 30 days.

Terms on manufactures of the non-ferrous metals are not the same as on the metals themselves in their primary forms. Terms on brass and copper products, including rods, wire, sheet and tubing, are largely 1 per cent 10 days, net 30 days, the discount in some cases being given for semi-monthly settlements by the 5th and 20th. These terms have been in effect for many years. In certain cases the discount was reduced during the war to 1/2 per cent and in some cases later eliminated, although subsequently, in general, restored to the former figure of 1 per cent.

Trade sheet lead and lead pipe carry terms of 2 per cent 10 days, net 30 days; bar lead and solder carry terms of net 30 days; and chemical sheet lead and chemical lead pipe carry terms of 1 per cent 10 days, net 30 days. The first two classes of items are sold largely to jobbers of plumbing supplies and to plumbers, the last to the chemical trade. The difference in the discount is accounted for by the difference in size and credit standing of the purchaser. While a 1 per cent discount is sufficient inducement to the large concerns of first-class credit standing in the chemical trade to generally discount their purchases, it is insufficient in case of jobbers of plumbing supplies and plumbers.

Rolled zinc products are regularly sold on a cash basis, sight draft against bill of lading being used in many cases. A cash discount of 3 per cent is allowed. These terms have been in effect for many years. By far the larger part of these commodities is sold to jobbers as against con-

sumers, although the proportion varies considerably from month to month.

Hardware.[3]—The hardware field is exceedingly complex. A large number of items are included under the term, and the limits are vague and ill-defined at points, merging into other lines. Hardware distributors have extended their activities to include related lines as well, automobile accessories affording the latest instance, while some of the regular hardware items are handled by other merchants also. Within the recognized limits of the field itself, there is no standard classification of items into a number of types. In addition, the lines produced by the individual manufacturers differ greatly.

In order to clarify the discussion as far as possible, several of the classifications in actual use will be presented. The war service committee of the American Hardware Manufacturers' Association had the following sections:

Wire goods and heavy hardware.
Builders' hardware, metal ware, small castings and stampings.
Cutlery.
Hardware tools.
Agricultural tools.
General hardware.

The internal organization of the individual hardware jobber, however, by no means follows the same lines. Following are the lists of departments of two hardware jobbers. The number, of course, will vary with the size of the house.

House No. 1
Builders' hardware.
Mechanics' tools.
Brass goods, valves, pipe fittings.
Steel bars, plates, sheets, light rails, etc.

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[3] Acknowledgment is due Mr. T. James Fernley, Secretary-Treasurer, National Hardware Association, for reading this section.

Wrought pipe and boiler tubes.
Cutlery, fishing tackle, sporting goods, etc.
Fire arms and ammunition.
Nails, horseshoes, barbed wire, etc.
Household goods, enameled, agate and tin ware, etc.

House No. 2
Auto accessories.
Builders' hardware.
Cutlery, watches, and clocks.
Electrical supplies.
Heating and plumbing.
Heavy hardware.
Mill, logging and agricultural.
Mining and railway.
Paint and glass.
Saddlery and shoe findings.
Sporting goods.
Stoves and ranges.
Tents and awnings.
Tools.
Toys and novelties.

In the present discussion we shall consider first the general line of shelf hardware and then treat in succession the metals and heavy hardware, builders' hardware, and sporting goods. Automobile accessories and electrical supplies, a smaller portion of which products is distributed through the hardware jobbers than in the case of the lines just mentioned, will be treated separately later. The regular distributive chain in the hardware industry comprises manufacturer, jobber, retailer, and consumer, but it is stated that in the Central West and on the Pacific Coast a greater proportion of goods is sold by jobbers to manufacturing and other consumers not individuals than in the other sections.

Shelf Hardware—Manufacturers' Terms.—Activities of the National Hardware Association with respect to terms of sale have dealt both with the purchases and with the

sales of hardware jobbers. Although in the 90's the American Hardware Manufacturers' Association gave much consideration to net 30-day terms, and some manufacturers adopted them, the strenuous objection on the part of the wholesalers resulted in the abandonment of the attempt to establish these terms, and the recognized terms upon which manufacturers sold continued for many years to be 2 per cent 10 days, net 60 days. The officers of the jobbers' association have always displayed great interest in the maintenance of the discount, and have at once communicated with manufacturers who have announced a decrease in or discontinuance of the same. The reasons for the jobber's advocacy of the cash discount, and the advantages claimed for it, are substantially similar to those put forward by the National Wholesale Grocers' Association, which were given in the preceding chapter. It is generally held that the discount is the source of a considerable part of the net profits of the jobber. The success of the work may be judged from the statement in the 1910 report of the secretary-treasurer that "almost all manufacturers now admit that the usual and ordinary terms are 2 per cent 10 days, net 60 days." From this time on a period of relative quiescence is noted, and the terms of 2 per cent 10 days, net 60 days, became established as the regular hardware terms. For several years correspondence with manufacturers was relatively small and the work was confined largely to representing to members the undesirability of wrongfully deducting the discount when not paying within the 10-day discount period.[4]

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[4] Some evidence as to promptness with which collections are made by hardware manufacturers is afforded by the following data contained in a paper advocating the use of trade acceptances, read by Mr. R. H. Treman at the 1916 convention of the National Hardware Association, and reproduced on pages 23-24 of the pamphlet entitled "Trade Acceptances, What They Are and How They Are Used," prepared for the American Acceptance Council and published October 1, 1919: "The reports show that when the bills are discounted,

This period, however, was not of very long duration. A rather widespread movement among manufacturers became manifest several years later, in particular after the outbreak of the war, to either decrease or eliminate the discount. This may be ascribed both to the increase which occurred in the price of the various hardware articles, which accompanied the increase in the cost of production, and to the existence of a seller's market. Strong opposition was aroused among the jobbers, the more so as their cost of doing business had been steadily mounting. At the 1916 convention of their association the resolution of 1899, favoring a cash discount of 2 per cent for payment within 10 days, was again read, and a similar resolution was passed. Both in 1916 and in the succeeding year the question was of prime importance. In the latter year a committee of the jobbers was appointed to present the matter to the manufacturers' convention. At the same time jobbers were again urged to respect the discount period. With the passing of war conditions, the matter has gradually declined in importance, and in 1918 it was stated that "many of the manufacturers who changed their terms during the past year reinstated the discount." At no time, however, did the majority of manufacturers deviate from the regular terms. Deviation occurred more largely in lines where the bulk of the merchandise has been distributed through other than hardware channels, in particular where the bulk of the manufacturers' sales are to large industrial consumers. A prominent illustration is afforded in the case of bolts and nuts, as was mentioned above, also by explosives, where terms were recently changed to net 10 days. Several reliable estimates agree that at the present time about 80 per cent of hardware items are sold by manufacturers upon the regular terms.

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instead of being paid in 10 days, they have averaged 15 days, and for those who take the option of the 60-day credit period, the average payment is in from 75 to 80 days, and 10 per cent or more of customers take 90 days or more."

Some manufacturers grant net terms of only 30 days instead of 60 days. This fact, however, makes little difference to the jobber, for he generally discounts his purchases. Yet it appears to be the only change which has been generally adopted in any of the distinctly hardware lines. Most manufacturers of seasonal goods have continued for many years to offer jobbers a dating on condition that they permit the manufacturer to ship the goods at his convenience. This is true of agricultural hand tools, where forks, hoes, rakes and cultivators carry March 1, corn hooks and knives September 1 and hay knives November 1. Certain household goods are known as spring or fall items (for example, water coolers and oil cook stoves; and oil and wood heaters and stovepipes), and carry March 1 and September 1 respectively. Furnaces, stoves and ranges generally carry September 1, although several years ago October 1 was given, and a spring dating of April 1.

Shelf Hardware—Jobbers' Terms.—The regular terms of sale of hardware jobbers have been the same as those upon which their purchases are made, namely, 2 per cent 10 days, net 60 days, but since 1919, there has been a movement to reduce the net period to 30 days. The National Hardware Association has considered the question at various times. Parallel with its work of urging all jobbers to respect the cash discount period, similar work was undertaken designed to bring the matter to the attention of the retailer. In 1911, a special committee on cash discount was appointed with this particular function. From about 1912 on, emphasis began to be placed upon the 2 per cent as a premium for prepayment, rather than as a discount for cash. The expression (which dates back at least to 1899) has been employed in the subsequent dealings with the manufacturers. The report of the cash discount committee, in 1912, stated that certain of the markets were badly demoralized on the question of the

enforcement of the cash discount period. Mr. R. H. Treman in the address delivered in 1916, to which reference was made above, gives the following data:

> As to jobbers (wholesale distributors), the reports show that throughout the country generally from 40 to 50 per cent of buyers discount their bills within 15 days after purchase, while of those who take the 60-day option from 25 to 30 per cent pay "promptly," or within one month following the 60-day maturity. Of the remaining 20 per cent, only about one-half pay in the period between 3 and 4 months after purchase while the other half pay in from 4 to 6 months, or never, notwithstanding that the terms of sale agreed upon were for a credit of only 60 days.

Variation was noted according to locality, jobbers on the Pacific Coast having 50 per cent of buyers discount their bills, 20 per cent pay in 75 days, and 30 per cent in from 3 to 4 months. In the rural districts the majority of retailers did not discount their bills, and averaged 90 days in place of the 60 days called for by the regular terms. In some cases interest-bearing notes for longer periods were taken by wholesalers. In connection with the respect of the discount period by retailers, attention was directed, in 1916, to the fact that the order blank prepared by the retailers' national association contained a clause calling for 2 per cent on receipt of goods.

The other problem confronting the jobber in connection with the cash discount has been the question of proximo terms. A growing tendency in this direction has been evident, although there is no uniformity of practice with respect to the matter. In certain cases semi-monthly settlement has been permitted, while in some cases it has been confined to city sales. In other sections, however, for example in Iowa, proximo terms are not favored.

It will be evident from the data given above that the question of the enforcement of the net terms has been of equal importance with the enforcement of the cash discount

period. As a practical means to the former end, the collection of interest on overdue accounts has often been advocated, in particular by the cash discount committee in 1911 and 1914. It should be noted that in certain sections at least considerable improvement in collections has been observed during the past several years, likewise an increase in the percentage of those taking the cash discount.

Some interest has been manifested in the trade acceptance during recent years, and the National Hardware Association has distributed considerable literature. As is the case in some other distributive lines, however, no widespread adoption of the acceptance is found, although it was stated in 1918 that quite a few houses, in particular in the South, had put into effect terms of 2 per cent 10 days, net 30 days or 60-day trade acceptance, and that "those who had tried acceptances were very much pleased with them." The matter had previously been discussed at the meetings of the Southern and Texas Associations, which adopted the terms mentioned. The general question of length of terms of sale has been discussed at various conventions of the National Association. In 1918 a resolution was introduced favoring uniform "terms of 2 per cent premium if cash is received within 10 days, or 1 per cent if received in 30 days, or 1 per cent if received before the 10th of the month for aggregate invoices of previous month, or net 60-day trade acceptance or bank note for the previous month's aggregate," and in the discussion which followed the suggestion was made that terms should be adopted not only by the State Associations, but by the National Association as well. It is stated that, during the year 1919, there was a tendency to shorten the net terms from 60 days to 30 days.

To consider briefly now the actual terms in use in the several sections of the country. General employment of other than the regular terms is always found in certain

markets. At the present time a 2 per cent discount is regularly given, even on items upon which the manufacturer allows only a lesser discount, with the exception, of course, of distinct lines, such as metals and heavy hardware. In certain sections where the net terms are 60 days, some jobbers have adopted 30 days; for example, in New York State and eastern Pennsylvania. In 1918, it was stated that terms in Texas, outside of the Dallas district, had been reduced to 30 days. In 1920, however, only one-third of the houses in the State, in particular those stocking principally heavy goods, sold on terms other than the regular 2 per cent 10 days, net 60 days. There was also a general tendency to shorten terms in the South, but it was hindered by the fact that the large middle western centers, such as Chicago, St. Louis, and Louisville, continued on the 60-day basis. At the present time the majority of the southern jobbers still use the latter terms, which are customary also in various other large eastern and middle western markets, such as Cleveland, Pittsburgh, Detroit, Duluth, Kansas City, Omaha, Sioux City, Des Moines, and Denver, and on the Pacific Coast.

Other Hardware Lines.—Distribution of iron and steel products and of heavy hardware is accomplished through one of three channels. There are exclusive metal houses, houses which deal in heavy hardware in addition to iron and steel, and hardware jobbers who have one department of their business dealing in these items. It has been stated that in the East the metal business in general is handled apart from hardware, whereas in other sections it is combined with hardware jobbing. Among the items embraced under the term heavy hardware, are bolts and nuts, horseshoes, nails, heavy tools, such as anvils, vises, and hammers, etc. The more staple have long been known as relatively unprofitable items, the margin of profit being small, but turnover heavy (in the case of nails, estimated, in 1911,

at from 15 to 20 times a year). The terms on which the general class of items is sold differ according to the type of dealer. Terms on the several classes of rolled-steel products in large measure vary according to the manufacturer's terms. There has been a tendency for jobbers handling hardware, however, to extend hardware terms also on iron and steel. On the other hand, with the tendency of manufacturers during the past several years to decrease the discount allowed, hardware jobbers, a considerable proportion of whose business is in these lines, have shown a tendency to decrease the discount or to shorten terms on them, while continuing the regular terms on the regular hardware items. Thus in the South net terms in a considerable number of cases are 30 days, with either a 1 or 2 per cent discount for payment within 10 days. Houses which do only a small amount of such business, however, continue the regular hardware terms on these lines.

Builders' hardware is generally considered a separate line. Owing to the technical knowledge required to properly handle the somewhat intricate details of the business all hardware dealers do not handle it, and a special department is created by the wholesaler, which sells to retailers, contractors, and consumers. In the past, manufacturers' terms were largely 2 per cent 10 days, net 60 days, but there has been a tendency lately toward reduction of the net terms to 30 days. Builders' hardware in some degree is seasonable, in that consumers make larger purchases in the spring and fall, but datings are rare. Jobbers usually sell the item on the general hardware terms prevalent in the territory. In New York City and vicinity, builders' hardware is sold by the manufacturers, most of whom have branch offices, direct to the contractor or consumer. In exceptional cases, this may also apply when New York contractors erect large structures elsewhere. It is the

custom to require payment of 85 per cent of each month's deliveries by the 10th of the following month and the remaining 15 per cent in 30 days after the completion of the building operation.

Sporting goods are being handled to an increasing extent through the hardware jobbers. Years ago there were a considerable number of special jobbers confining their activities to the line, but at the present time there are stated to be less than half a dozen such houses in existence. While in general such goods are distributed through the jobber, some manufacturers sell direct to large department stores and others through their own branch stores, and direct to the retailer. The general terms, given both by manufacturers and by jobbers, are the same as in the case of hardware, namely, 2 per cent 10 days, net 60 days. During the war there was a tendency for the manufacturers of certain lines, such as firearms and ammunition, to decrease the net period to 30 days. In some cases proximo terms are given by jobbers, though this is not general. The business is distinctly seasonal. In this connection there are several general branches, each receiving a distinctive dating from some manufacturers as well as jobbers. These dates are April 1 on fishing tackle, baseball and general athletic goods, and October 1 on firearms and ammunition.

Mill Supplies and "Machinery."[5]—Due to unity of dealers' interest, these two classes of goods are generally considered together. The title is not, however, strictly accurate, inasmuch as the term "machinery" refers in this connection rather to machine tools, that is, machines for doing work with cutting tools or utilizing minor tools in fashioning the wood and iron parts of machinery, performing the five operations of planing, boring, turning, milling, and slotting.

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[5] Acknowledgment is due Mr. H. W. Strong, Secretary, Strong, Carlisle and Hammond Co., Cleveland, for reading this section.

Mill supplies, exclusive of the metal lines, on the whole carry a cash discount of 2 per cent when sold by manufacturers, with net terms of 30 or 60 days. Many exceptions are however found, and several dealers report that during the last few years quite a few manufacturers eliminated the discount or reduced it to 1 per cent.

Machine tools, on the other hand, are sold by many of the large manufacturers on terms of net 30 days. Several authorities state that discounts given are largely by the newer and smaller manufacturers, possessing less financial strength and therefore less desirous of having capital tied up in receivables, but who after several years discontinue the same. Quite a number of well-established manufacturers, however, allow a cash discount of 1 per cent, and in some cases 2 per cent is given. In certain cases the former discount is given on lighter tools, the heavier carrying no discount. It is estimated that of the standard line of machine tools possibly 80 to 85 per cent is sold through dealers and the balance by manufacturers. Direct sales occur more largely in the case of new tools or devices, the manufacturer introducing the same, and then getting the dealers to stock the item. An increasing tendency toward the distribution of both mill supplies and tools through dealers is noted.

There is an increasing tendency for dealers to handle both classes of goods. Perhaps 75 per cent of distributors start with mill supplies only, later adding lines of machine tools, one at a time. Ninety per cent of mill-supply houses in the South also handle machinery. In general, mill supplies and machinery alone are handled, but in the West and in the less-developed sections, other lines, such as agricultural machinery, are also handled to a greater or lesser extent. In some cases the mill-supply business is combined with hardware jobbing. Separate departments usually handle mill supplies and machinery. In the han-

dling of the latter, mechanical knowledge is required, and there are therefore separate purchasing agents for both classes, although 90 per cent of the houses buying machinery also buy supplies.

In general, the terms of dealers conform to those upon which they are sold by manufacturers. Machine tools thus generally bear terms of net 30 days, in certain cases with cash discounts of 1 or 2 per cent for payment within 10 days. Mill supplies generally carry terms of 2 per cent 10 days, net 30 days or 60 days, although on certain items, mostly the metal lines, and items such as bolts, nuts, rivets, and some kinds of screws, the discount is only 1 per cent, and on some other items, such as iron and steel bars, no discount is given in certain cases. Proximo terms are used at times, likewise the trade acceptance. In the South, however, dealers' terms are generally 2 per cent 10 days, net 30 days or 60 days, on sales of both supplies and machinery, these terms applying to approximately 90 per cent of the dealers' total sales. The difference in terms between machine tools and mill supplies has been accounted for by differences in financial strength between the manufacturers of the two classes of goods, and also by the fact that many of the great variety of dealers' customers are small and with uncertain credit ratings. On the larger items, such as machine tools, dealers frequently cover their sales with some form of chattel mortgage or method whereby title is retained. In such cases an initial cash payment, such as 1/3 or 1/2, may be required with order or upon receipt of bill of lading, and the balance covered by interest-bearing notes maturing monthly for 3 or 4 months. In some cases 6 months' time is given.

Collections of dealers as indicated by the average number of days' business represented by accounts receivable have always been considerably longer than the net period for which terms are nominally made. The average is esti-

mated at somewhere between 45 and 60 days, but closer to the second figure. The percentage of dealers' customers who discount their purchases is relatively small. While the figure, of course, will vary with the character of business of the house, information received from several houses indicates that slightly over 1/3 discount, approximately 1/3 pay when due, and the remainder run past due. Dealers have tended to shorten the net terms actually taken by insisting upon stricter observance of the nominal terms, and certain houses have shown a considerable decrease in the number of days' business outstanding. It is interesting to observe that while "there have been a good many suggestions from dealers to manufacturers looking toward the reintroduction of the cash discount in the machine-tool trade," there has been no active effort comparable to that put forth by jobbers in other lines, such as hardware. It has been suggested that this is due to the fact that dealers in general work very closely with their principals, the manufacturers. It may be observed that dealers as a rule sell machine tools from samples carried in warehouse, while mill supplies are stocked by them.

Machinery.[6]—Power machinery, including engines and boilers, and hoisting and conveying machinery have as regular terms net 30 days. However, exception is made to such terms in two cases—where the machinery is to be erected or where the amount of the order is large. In some cases payment of from 50 to 80 per cent of the total amount is specified upon shipment of the material. Subsequent payments are only 1, 2, or 3 in number, and a time limit, such as 3 or 4 months, is fixed within which final payment shall be made. Thus, for example, it may be specified that 60 per cent is due upon shipment, 20 per cent in 30 days thereafter, and 20 per cent when the material has been

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[6] Acknowledgment is due Mr. H. W. Strong, Secretary, Strong Carlisle and Hammond Co., Cleveland, for reading this section.

erected. In other cases an initial payment upon signing of the order may be specified, though sometimes omitted, then monthly payments, as the work progresses, for 70 per cent or more of the value of goods shipped and labor performed during a month, and a final payment of 10 per cent or more upon the erection of the machinery. In some cases the payments are required for the work done in the shop and the final payment is due upon the shipment of the machinery. Certain manufacturers vary the payment plan according to the size of the order. Thus, for orders under $5,000, not calling for erection, terms of net 30 days may be specified; for orders of from $5,000 to $20,000 not calling for erection, and orders up to $20,000 calling for erection, payment upon shipment may be required, with balance due in 30 days and upon erection; while for contracts of over $20,000, whether calling for erection or not, progressive monthly payments may be required, with the balance due upon completion of the work.

Textile machinery is almost entirely sold direct by the manufacturer to the user. The regular terms on the domestic product are net 30 days from date of invoice. A very small proportion of sales are made upon terms of net 60 days, and very infrequently a cash discount of 2 per cent is given for payment within 10 days. A study made in 1916 indicates that in some cases cotton-mill stock and bonds were accepted. Silk machinery, however, is sold to some extent on a time basis, estimates placing the total so sold at approximately 1/4 to 1/3 of the output. Provision is made in such cases for the payment of from 1/3 to 1/2 cash on delivery, and the balance is covered by notes due in 3, 6, 9, or 12 months. These notes are secured by a lease contract. Material use is made of the plan by new concerns which are usually short of capital, also in some cases for financially weak purchasers of other classes of textile machinery.

Printing machinery is also sold direct by the manufacturer to the user. Either cash or deferred payment is specified. In the latter case an initial cash payment of about 1/4 the amount is required, and the balance due within 24 months, being represented by interest-bearing notes maturing monthly and secured by a lien on the machinery. In some cases a discount of 5 per cent is given for cash settlement on erection of the machinery.

Railway Equipment.—The regular terms on which domestic sales of locomotives are made are net 30 days from date of delivery.[7] A leading manufacturer states that it is in most cases f. o. b. works, and that it refers only occasionally to time from acceptance when dealing with political subdivisions where the statutes specifically require formal acceptance prior to payment for the goods. Where the purchaser has insufficient funds, conditional sales or lease agreements are made. Security is afforded by a lien on the equipment. Such sales occur in particular to contractors or very small railroads, and in normal times only a very small percentage of the business is done on such terms. While the terms of payment vary greatly, provision is generally made for an initial payment ranging from 20 to 33 1/3 per cent. Payment of the balance in equal monthly or quarterly installments is specified, the total period in general running not over 2 or 3 years, although in some cases up to 5 years. The payments are evidenced by notes drawing interest at 6 per cent. No general changes in terms during the past decade are noted, other than a more frequent formation of equipment trusts. In such cases either the regular terms prevail or cash upon completion or acceptance by the railroad is specified.

Usual terms in car-builder's contracts, covering all classes of freight and passenger cars, call for cash on de-

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[7] Acknowledgment is due Mr. J. Oakley Hobby, Jr., Treasurer, American Locomotive Co., for reading this material.

livery, that is, for invoices accompanied by inspector's certificate or receipt, or bill of lading of railroad first handling the cars, in lots of 25, 50, or 100 cars.[8] These terms prevail also in cases where equipment trusts are employed, as has been done in recent years by many of the larger railroads. Occasional payment out of current funds by a few railroads with substantial credit is noted, in which case net 30 days from delivery has been specified. In a few cases short-time notes with interest have been taken where the amount involved was not very large. While each case is treated individually, as a general rule a cash payment of approximately 25 per cent is required with the order, and the balance is represented by notes, part of which are due upon the delivery of the cars, and the remainder spread evenly over about one year. The cars remain the property of the builder until paid for.

Terms in the case of sales of street railway, interurban, and subway cars are largely adapted to the particular case in question. While contracts specify cash on shipment, meaning sight draft attached to bill of lading, this is not rigidly adhered to. Ordinarily, however, payment in three equal installments, the last due at the close of 3 to 4 months, has represented the maximum terms. Deferred payments bear interest.

Shipbuilding.[9]—Terms employed on ship construction for private domestic purchasers provide for an initial payment upon execution of the contract. This is usually 5, 10, or 15 per cent and in rare cases 20 per cent of the purchase price. Subsequent payments of equal size are required when certain steps in the building of the vessel have been completed, such as laying the keel, plating, launching, etc.

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[8] Acknowledgment is due Mr. N. S. Reeder, Vice President, Pressed Steel Car Co., for reading this material.

[9] Acknowledgment is due Mr. J. P. Bender, Credit Manager, Bethlehem Steel Co., for reading this section.

The number of payments varies with the type of vessel and estimated time required for completion, but is stated to be approximately 10 or 12. The final installment, varying from 5 to 10 per cent, is generally due upon completion and delivery of the vessel. Prior to 1917, it was the general practice in certain cases, such as for large bulk cargo ships, to accept one-half the purchase price in first serial bonds, maturing in from 1 to 10 years.

CHAPTER XIII

THE AUTOMOTIVE, AGRICULTURAL IMPLEMENT, ELECTRICAL AND FUEL INDUSTRIES

The present chapter deals with three principal groups of products. It includes items such as passenger cars and trucks, which are destined to serve as a kind of fixed capital to the final user; items which are highly manufactured and small in size, such as automobile accessories and various electrical products, and fuel. Almost all these articles are therefore partly for household, partly for industrial use. The only ones in whose distribution the jobber plays a considerable rôle are automobile accessories, electrical products and petroleum.

While each class of article has its distinctive terms, the latter on the whole are short, except for those capital goods where specific provision is made to carry the purchaser. This is notably the case with agricultural implements, where net due dates are adjusted to the farmer's seasonal ability to pay. On both this item and automobiles, there is a tendency, where credit is granted, to use notes or acceptances, instead of having the amount run on open account. Rubber goods, automobile accessories and electrical products carry terms of either 30 days or 60 days, certain items in the first named group also having a season dating. Discounts are generally 1 or 2 per cent, with the exception of automobile tires and tubes, for which terms are regularly 5 per cent 10th proximo, and of certain electrical products. Fuel is generally destined for current use, so that coal and coke carry net 30-day or proximo terms,

and petroleum products on the whole carry net terms of 30 days, with corresponding discounts in some cases.

Automobiles.[1]—Passenger automobiles and trucks are ordinarily distributed by manufacturers through branch houses or distributors, who control a specified territory. The latter make arrangements with dealers in their territory, but may also retail cars locally.

The manufacturer receives cash payment, usually through use of a sight draft with bill of lading attached in the case of shipments, or payment before the car is driven away. In many cases the practice is to draw upon the distributor, who in turn draws upon the dealer, but in the case of financially strong dealers the manufacturer draws direct upon the latter. A cash deposit is often required, either repayable at the expiration of the contract between manufacturer and distributor or applicable in specified amounts toward the purchase price of each car or truck. While sometimes a flat amount is stipulated, this is generally calculated roughly at so much per car contracted for, but the amounts required by different manufacturers vary greatly. There is now quite a movement on foot to eliminate cash deposits, and this has been carried out by some leading manufacturers.

In order to assist distributors and dealers in purchasing their passenger cars during the winter months, several plans have been devised by some of the larger manufacturers in connection with carload shipments. A cash payment per car is required, also certain additional payments for miscellaneous expenses. To the draft and bill of lading is attached a separate trust receipt and note for each car. The draft is drawn on the dealer direct in case of direct shipment to him. Notes are interest bearing and mature in from 5 to 3 months, a graded scale according to

[1] Acknowledgment is due Mr. A. L. Deane, Vice President, General Motors Acceptance Corporation, for reading this section.

date of shipment being arranged, the earlier shipments carrying more time. Maturities range from April to June. Payment is required before the machine is disposed of. This plan calls for placing the car on the distributor's or dealer's floor. Instead, it may be placed in warehouse, in which event no trust receipt is used, but instead, a warehouse receipt is attached to the note representing the machine in question. The great majority of manufacturers, however, extend no assistance to the distributor and dealer, but leave the latter to obtain accommodation from his bank or from one of the finance companies which have specialized in this field. Some distributors have devised more or less similar plans for financing dealers, both in connection with sales of passenger cars and trucks.

Distributors and dealers in some cases sell a considerable number of passenger cars on time, the partial payment plan being employed. While certain makers of higher priced cars report little use of such terms in connection with their product, some makers of popular-priced cars estimate that over half their product is sold on time. The size of the initial cash payment to the distributor or dealer differs, being stated variously as generally 25, 33 1/3, and 50 per cent. The balance is paid in monthly installments, the maximum time limit being given as 7 to 12 months. Security is afforded by the use of chattel mortgage, conditional sale, or lease agreement. In one-crop agricultural sections, such as the Northwest and South, it is stated that the farmer's note is at times taken for the entire purchase price of the car, being made payable at the time of marketing the crop.

While cash payment to the manufacturer is practically universal in the case of passenger cars, a certain proportion of trucks are sold on time by manufacturers. A considerable number, however, require cash payment. When sales are made on time an initial cash payment of 25 to 33 1/3

per cent is generally specified, the balance usually being payable in 12 equal monthly payments, although the number reported runs from 4 to 18. Security is afforded by the use of chattel mortgage, conditional sale, or lease agreement. In practical operation, plans such as these will approximate those indicated in connection with winter purchases of passenger cars, the manufacturer drawing on the purchaser, releasing the truck under trust receipt (inasmuch as it is placed on the floor, and not in warehouse), and receiving the series of notes, in place of the one note. Trade acceptances are used in certain cases in place of notes.

Trucks are more largely sold on time by distributors and dealers than are passenger cars. Estimates in general agree that 70 per cent is so sold. The initial cash payment to the distributor or dealer is usually 25 or sometimes 33 1/3 per cent, and the balance is generally divided into 12 equal monthly payments. The period, however, may vary from 90 days to 18 months. Interest-bearing notes are used. Security is afforded by the same 3 devices indicated above in connection with passenger cars. It is stated that there is a larger proportion of cash sales in the East than in the Middle West or on the Pacific Coast, and that the duration of notes covering a sale in general will be for a longer period in the latter two territories.

One of the leading automobile manufacturers has created a special banking corporation to assist in financing its distributors and dealers. Three plans have been devised, two in connection with wholesale and one in connection with retail sales. The plans are substantially similar to those indicated above, with the exception that the banking corporation finances the sales, instead of leaving the purchaser and seller to make their own arrangements. In the case of sales by producing companies direct to distributors and dealers, notes are given by the latter to the corporation,

maturing in not over 6 months in the case of both passenger cars and trucks. The time varies according to the season and the territory. Where a trust receipt, covering the cars in question, is used, and cars are stored on the dealer's floor, a cash payment of at least 15 per cent is required; in the case of the warehouse plan, at least 10 per cent, a sight draft being drawn for this amount. "Drive-away" shipments, to be stored on the dealer's floor, likewise require 15 per cent.

In the case of sales by distributor or dealer to subdealer, a trade acceptance is used, the distributor drawing on the subdealer and indorsing the acceptance to the order of the corporation, which pays the distributor or direct dealer its face value in cash. Maturity, margins, and other details are the same, the option being given of either floor or warehouse storage or drive-away shipments. The extent of use of the wholesale plans depends upon the season of the year.

The retail plan is more largely used in summer, when the dealer does not find it necessary to place cars in storage. In the case of retail sales, the purchaser gives the dealer a non-interest-bearing note for the amount being financed, which calls for regular monthly payments, the time not exceeding 12 months in the case of passenger cars or trucks. The minimum initial payment is 30 per cent, and security is afforded in the usual manner, by chattel mortgage, conditional sale, or lease agreement, according to the law of the particular state in which the sale is made. The dealer indorses this note, ordering payment to be made to the corporation and the corporation then buys the note provided the credit of the purchaser upon independent investigation proves satisfactory, paying the dealer face value for it in cash. The details of the plan vary according to the individual case. The size of the initial payment depends both upon the number of payments specified and

their frequency. Depreciation on the car is estimated and the user's equity considered. In case only several payments are made, at intervals of several months, the initial amount would be larger than if monthly payments were specified. Farmers alone are permitted to make an initial payment of at least 40 per cent, with payment of one-half the remainder at the close of 4 months, and the final payment at the close of 8 months, or with the deferred balance payable in three equal installments at intervals of three months. An alternate plan is also provided whereby the farmer may make instead an initial payment of at least 50 per cent and pay the balance in one payment within 7 months. The corporation resells directly to banks and investors' notes and acceptances arising from transactions under either of the wholesale plans, and collateral gold notes are issued against obligations arising from sales under the retail plan, and at times against notes and acceptances.

Repair parts are generally sold by manufacturers on monthly settlement, due dates ranging from the 10th to the 20th, and no cash discount is allowed. In certain cases net 30 days is given, while cash on delivery is also specified in some instances.

Rubber Goods.[2]—Among the various classes of rubber goods, automobile tires and tubes are by far the most important. The larger manufacturers have branch houses located in important centers. It is estimated that two-thirds to three-fourths the output is sold direct to dealers, instead of through jobbers. Under the latter head are included, in addition to special automobile accessory and hardware jobbers, also mercantile houses, wholesale grocers, farm implement wholesalers, etc. The larger retailers (located usually in the larger cities) also sell to some extent to small dealers in neighboring towns. Retailers or dealers

[2] Acknowledgment is due Mr. S. G. Carkhuff, Secretary, Firestone Tire and Rubber Co., for reading this section.

may be either specialized or handle also other lines, such as hardware, or conduct garages or vulcanizing shops.

The regular manufacturers' terms on tires are 5 per cent 10th proximo. In certain cases net terms are 30 days, although frequently no net terms are specified. On Pacific Coast shipments some manufacturers give 5 per cent 10th proximo of the second month on direct shipments to the dealer, which terms also obtain in some cases in other territories where the distance to the branch or distributing point is great. Estimates of leading companies agree that from 75 to 85 per cent of the accounts are paid by the 10th proximo, though this figure, of course, varies with the several manufacturers. In general, no marked difference is reported in promptness with which collections are made from the different types of purchaser, although several manufacturers refer to the small garage dealer either as slowest pay or as presenting the greatest credit risk. It may be stated in this connection that the larger manufacturers have an elaborate system of reports from branches to show the status of collections, including in one manner or another the proportion of accounts not discounted, those 1 month and 2 months old, etc.

In recent years a dating for tires shipped during the winter months, namely, from November 1, December 1, or January 1 to March 1 or April 1, or in one case from September 1 to January 1, has been introduced. This varies somewhat with the individual manufacturer, and the same manufacturer may vary his terms from year to year, both as to period of shipping and dates of payment. April 1 (and thus due date of May 10) is most common, although due date of April 10 is sometimes specified. The three-payment plan is used in certain cases, 1/3 of February shipments, for example, being due March 10, 1/3 April 10, and 1/3 May 10, and at times the due dates for shipments during these months are April 10, May 10, and June 10 or May

10, June 10, and July 10. Some manufacturers permit the buyer at his option to pay on either single or three-payment plan. Anticipation is permitted, in certain cases at the rate of 1 per cent per month, in others at the rate of 6 or 8 per cent per annum. An increasing use of the trade acceptance is indicated, in particular, in connection with shipments bearing the spring due date. Bicycle tires, during the winter months, carry a dating somewhat similar to automobile tires. While certain manufacturers note a tendency to shorten terms, or rather to make prompter collections, during the past decade, others report no change in this regard.

Although a considerable number of companies confine their activities entirely to the manufacture of tires, others make to a greater or lesser extent the various other classes of rubber goods. It is stated to be the tendency for the larger companies to enlarge their products beyond tires and tubes, although some companies have commenced with other lines. The large companies manufacture practically all lines. Certain of these products, such as druggists' sundries and mechanical goods, are distributed largely through jobbers. On the other hand, rubber footwear is sold in large part direct to retailers.

Mechanical goods as a whole are largely sold on terms of 2 per cent 10 days, net 30 days or net 60 days. Occasionally large accounts receive 2 per cent second 10th proximo, with no net terms. Jobbers of thresher belts in some cases receive a dating, May shipments bearing a 2 per cent discount if paid November 10, while shipments of garden hose from about November 1 to April 1, bear a spring dating of May 1 or in some cases April 1. Fire hose, which is sold largely to municipalities, bears terms of net 4 months, or net 12 months, interest being added at the rate of 6 per cent per annum in the latter case for the additional time taken. Insulated wire is sold on terms of 1 per cent 10 days, net

30 days. Druggists' sundries bear terms of 2 per cent 10 days, net 60 days, no special dating being given. Rubber footwear datings differ. April 1 to November 1 shipments are due December 15 net. November and December "fill-in" shipments in one case carry about 30 days, and in one case January 1 to April 1 shipments are due net May 1. Shipments of tennis shoes, etc., from January 1 to May 31 are due net July 1, and shipments during all other months are due net on the 15th of the second month following. Soles and heels carry terms of 2 per cent 10th proximo, or 5 per cent 10th proximo. Rubber clothing carries a discount of 2 per cent. January to March shipments are due April 10. April and May shipments are due May 10 and June 10, respectively, while shipments from June to September, inclusive, are due October 10 and shipments in the three following months have due dates of November 10, December 10, and January 10, respectively. All datings are subject to anticipation, although the rate may vary according to the product in question. On all these products, proximo terms are employed to some extent in addition to the cases mentioned.

As would be expected, the percentage of discounters on mechanical goods, druggists' sundries, and insulated wire is stated to be considerably less than on tires. One manufacturer states that buyers of mechanical goods in general do not discount, as the average purchase is small and the discount not large enough to be an incentive. More than half of footwear customers are reported to anticipate.

Automobile Accessories.[3]—At the present time there is little uniformity in marketing methods, and the latter are in a state of change, due both to the rapid growth of the industry, to the variety of products included under this head, and to the large number of manufacturers. A larger

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[3] Acknowledgment is due Mr. J. C. Ralston, Vice President, Beckley-Ralston Co., Chicago, for reading this section.

proportion of sales are made by manufacturers direct to retailers than is usual in other lines, although the proportion varies greatly for the different products.

Terms of sale of manufacturers in general are 2 per cent 10 days, net 30 days, to both wholesalers and retailers. Proximo terms, usually the 10th but in some instances the 15th or 20th, are permitted in certain cases to the larger purchasers, such as automobile manufacturers and those having a number of shipments during the month. Some manufacturers allow or request their customers to use a 30, 60, or even 90-day trade acceptance with varying or no discount. On lines other than tires, dating is not a general practice, but some manufacturers give datings on large orders, often requiring a trade acceptance in such cases. The exceptions to the regular terms which are found are not as a rule confined to particular products which become conspicuous as bearing other than the regular terms.

Jobbers of automobile accessories are of several types. Distinction is made between legitimate jobbers and semi-jobbers, the latter of whom are not financially able to take their discount, and do some retail selling. Development during the past few years has been twofold; in the first place, a class of accessory jobbers has become segregated from allied lines and has specialized in the field with increasing financial strength; on the other hand, an increasing interest has been shown by the hardware jobber in the automobile accessory business. Retailers are of three types —specialty dealers, garage men, and hardware retailers. The garage man will naturally be the largest buyer of products which require installing, while the specialty retailer and hardware retailer will carry the balance. The retailer of hardware and the garage and car dealer do most of the accessory business in the South and West, while in the East a large proportion of it is done by the specialty retailers.

Terms of specialized accessory jobbers in general are the same as manufacturers' terms. While they themselves in large measure take the discount, their customers take the net 30-day terms, although terms to garage men are often C. O. D. Hardware jobbers, however, in general apply the regular hardware terms of 2 per cent 10 days, net 60 days, to the automobile accessories they handle, other than tires, for which jobbers' terms are almost universally the same as those of the manufacturers. Proximo terms are employed in some cases. Some business is done on a 30-day trade acceptance basis without interest. The only exception to the general terms is found in the case of heavier shop equipment to garage men where sale is made on contract covered by deed or title, notes being taken and equal payments over 6 to 8 months specified. An alternative method where less time is required is to use the trade acceptance, splitting the payment by taking acceptances for 30, 60, and 90 days.

Agricultural Implements.[4]—The ordinary method of distribution in the industry is from manufacturer to branch house to retail dealer to farmer, and the great bulk of farm implements is marketed in this manner. Smaller manufacturers, however, frequently sell to jobbers, who in turn sell to the retail dealers. Many manufacturers distribute a comparatively large amount of their implements through other manufacturers' branch houses. The branch

[4] In the preparation of this statement, extensive use has been made of the following reports: Report of the Commissioner of Corporations on *The International Harvester Company*, March 3, 1913. Report of the Commissioner of Corporations on *Farm-Machinery Trade Associations*, March 15, 1915. Report of the Federal Trade Commission on *The Causes of High Prices of Farm Implements*, May 4, 1920. These have been supplemented by the reports of the terms committee and the proceedings of the National Implement and Vehicle Association, and by inquiry of some leading manufacturers and of jobbers in the various sections of the country. Acknowledgment is due Mr. H. J. Sameit, Secretary, National Association of Farm Equipment Manufacturers (formerly National Implement and Vehicle Association), for reading this section.

houses are thus enabled to carry a complete line of implements. The system is found especially in the upper Mississippi Valley. A recent study [5] shows that half the branch houses of 27 leading manufacturers, having 282 branch houses and selling to 140 jobbers, are located in 9 states—Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Nebraska, and Missouri. In these states sales are made to only 28 jobbing houses. Jobbing houses are mostly located in the far western and southern states. The above study shows that 8 states, namely, Oregon, California, Texas, Louisiana, Arkansas, Kentucky, Georgia, and Virginia, have 59 jobbing houses and only 47 branch houses. It is stated that "perhaps more tractors are sold through independent jobbers or distributors than any other class of farm machinery." As a result of the shortening of terms which will be considered below, as well as the fear of possible price declines, dealers do not place as large initial stock orders as formerly, and direct shipments from factories to dealers have decreased, so that manufacturers are required to carry larger stocks at distributing points. The two outstanding changes in distributive methods during recent years have been the decrease in the consignment of goods and the increase in the number of branch houses, especially in the territories such as California, where formerly they were less frequent.

In order to simplify the discussion, the principal kinds of agricultural implements, the terms on which will be considered below, may be conveniently classified as follows: Farm wagons; seeding machinery, including planters, grain drills, etc.; harvesting machinery, including binders and mowers; tillage implements, including plows, harrows, and cultivators; and thrashing machinery and tractors.

The history of terms in the industry may be divided into

[5] The 1920 report of the Federal Trade Commission.

two periods, the line of division being the year 1916. From that time and up to 1922 the standards of terms in the industry have been represented by the set of terms prepared annually by a committee of the National Implement and Vehicle Association, which was appointed in October, 1915. The terms on which implements are sold were a favorite competitive device with manufacturers in the past, additional credit being granted as a means of increasing the volume of business. The farmer usually paid part cash at the close of the harvesting season and gave a promissory note in payment for the remainder in one or two annual installments. With the change from a commission to a sale basis, local dealers gave their own notes to the manufacturer, whereas formerly a large amount of farmers' notes were taken by the latter. Long terms have been most prominent in the case of harvesting machinery, and are stated to have been established early in the 50's on reaping machines. In 1902, the usual harvesting machine terms were said to be 1/3 the fall of the year when purchased (called cash), 1/3 the fall of the following season, and 1/3 the fall of the second season. Excessive competition, however, frequently extended the time to 3 years, while it also resulted in the grant of one year's extra time without interest when crop conditions were unfavorable. Machines were also sold at the close of the harvest on what was called "next year's time" without interest, the first payment then only being due the following fall. Plows and special tools were, however, sold on short time or cash, while twine was sold principally for cash in the fall of the year when sold. About 1905 price differentials were quoted as between payment in cash and in 2 or 3 installments, while interest was added on the notes, but subsequently only time prices were quoted, subject to specified cash discounts for prior payment. Terms prevailing in 1911, for several leading types of implements are shown in the following table:

	Payments limited to—	Notes to mature not later than—	Notes to bear interest from (or from date of delivery of the machinery)	Agent's cash discount date
Grain binders	Three	Nov. 1, 1911-12-13	Sept. 1, 1911	Oct. 1, 1911
Corn binders.	do.	do.	Oct. 1, 1911	Nov. 1, 1911
Reapers	Two	Nov. 1, 1911-12	Sept. 1, 1911	Oct. 1, 1911
Mowers	do.	do.	do.	do.

The system of long credits is stated to have been extended to products other than harvesting machinery, such as manure spreaders and wagons. The increase in the percentage which credit sales were of total sales in the domestic business of the International Harvester Company during the period 1904-1911 is as follows:

Year	Percentage of sales for cash	Percentage of sales for notes and accounts
1904*	70.9	31.1
1905	74.4	25.6
1906	70.3	29.7
1907	67.3	32.7
1908	69.4	30.6
1909	68.9	31.1
1910	66.4	33.6
1911	64.2	35.8

* Percentages as in original statement; do not equal 100.

The data in the following table, giving the percentage each year of the total amount of notes which matured the first year, second year, etc., also bear on this matter. It is

seen that, while notes for the longer terms showed an almost uninterrupted decline, notes maturing the first year decreased slightly, and those maturing the second year showed a great increase.

Year	Percentage maturing first year	Percentage maturing second year	Percentage maturing third year	Percentage maturing fourth year	Percentage maturing fifth year
1904.....	34.7	48.0	14.4	2.9	...
1905.....	36.0	50.4	12.2	1.4	...
1906.....	30.5	58.3	10.2	.9	.1
1907.....	29.6	63.0	7.0	.4	...
1908.....	26.9	66.3	6.4	.4	...
1909.....	26.5	66.7	6.2	.6	...
1910.....	25.9	67.7	6.0	.4	...
1911.....	28.9	64.2	6.5	.4	...

The efforts of the committee of the national association have been along the line of more uniform and shorter terms. A leading purpose has been to reduce the amount of capital invested in relation to the volume of business done; that is, to increase the rate of turnover. The terms represent maximum terms only, and it is stated in the committee's reports that "it is recommended that shorter terms should be adopted in many instances, especially where states are divided by trade centers." In the construction of these terms, the country since 1916 has been divided into 4 zones—the central, northern (all that portion of the United States lying north of the southern boundary lines of Oregon, Idaho, Wyoming, South Dakota, Minnesota, Wisconsin, Michigan, and New York), southern (the States of North Carolina, South Carolina, Tennessee, Arkansas, Louisiana, Mississippi, Alabama, Georgia, and Florida), and Texas. The time granted differs in the various zones,

according to the type of implement, the conditions of use in the particular zone, and the time when crop returns are received. There has been a gradual restriction of the use of the "carry clause," granting additional time on the portion of the original order or shipments during the season remaining unsold at the close of the selling season for the implement in question.

In 1916 and 1917, the committee also provided "standard net terms" to apply to all goods for all territories except the southern zone. These were substantially on the basis of 2 per cent 10 days, net 60 days, with specified datings of March 1 and July 1 for shipments during certain months. For some types of implements the dates were changed somewhat, and in the northern zone were 30 days later throughout. These terms reports continued in force until the opening of 1922, when they were withdrawn because of the unsettled business and economic conditions which presented so many new and different conditions to the membership. They may be accepted as indicating the general norm which exists. As they are exceedingly complex, it will be possible to select here only a small number of implements representative of the various classes.

Wagons.—Until recent years farm wagons were manufactured largely by firms producing this article only, and where manufacturers have extended their efforts to other lines, this has generally been in connection with motor vehicles. In 1913, usual terms were "about 6 months except in straight carload lots, which could be carried for a period of 9 months or a year." The long terms customary in the South prior to 1916 caused much dissatisfaction, and in 1915, certain southern manufacturers attempted to reduce terms to 5 per cent 30 days to 4 months, net 4 to 8 months, the longer periods, both for cash discount and net terms, applying on larger quantity shipments. At a joint conference meeting of the wagon department of the National

Implement and Vehicle Association and the Southern Wagon Manufacturers' Association in October, 1916, it was stated that it was evident that terms were being shortened, due largely to the cash terms then in force on articles purchased by the manufacturers, and the latters' narrow margin of profit.

In November, 1916, the National Implement and Vehicle Association recommended terms on local shipments of 5 per cent 30 days, net 4 months, with certain datings on car, half car, and mixed shipments, such as 5 per cent 1/2 September 1, 1/2 October 1, net December 1, on shipments in April-August. Alternative use of terms of 5 per cent 30 days, net 4 months, with April 1 dating on December-March shipments and the same datings as in cotton territory, was provided. Subsequent discussions were had relative to further shortening of terms, and in 1918, the question was referred to a special committee of the wagon department, but practically no changes in terms were made from those recommended the previous year, and the reports for 1919-1920 and 1920-1921 made no change from those for 1918-1919. The less-than-carload terms last recommended were 5 per cent 30 days, net 4 months, with terms on car, half-car, or mixed-car shipments of 5 per cent June 1, net September 1, 5 per cent September 15, net November 15, and 5 per cent December 1, net February 1, on December-March, April-July, and August-November shipments, respectively, in the central zone, or the shorter terms of the wagon department of 5 per cent 30 days, net 4 months, on carload quantities, and 5 per cent 15 days, net 60 days, on less-than-carload lots, December-March shipments taking April 1 dating.

Seeding Machinery.—In March, 1916, terms recommended on grain drills and bar seeders for the central zone called for net September 1, or net December 15, with a cash discount of 5 per cent on May 1 or October 1 respectively

and 4 per cent on December 1. A carry clause was provided for both original spring and fall purchases.

Discount dates were extended 30 days in the northern zone and in the cotton States. The terms recommended in 1920 varied from zone to zone, as follows:

	Spring	Fall
Central	5 per cent May 1 net Sept. 1	5 per cent Oct. 1 net Dec. 1
Northern	5 per cent June 1 net Nov. 1	5 per cent Oct. 1 net Dec. 1
Southern	5 per cent April 1 net July 1	5 per cent Nov. 1 net Jan. 1
Texas	5 per cent April 1 net July 1	5 per cent Oct. 1 net Jan. 1

Various dates for shipment were also specified. The carry clause, applying to all zones, provides that "any portion of original spring drill orders if on hand May 1, may be settled by note on fall terms in such territories as have both spring and fall drill trade," except that in the northern zone the date is June 1 instead.

Harvesting Machinery.—Little change has occurred in the terms noted on this class of implements. The terms recommended by the association vary somewhat between the different zones. Thus, while grain binders and reapers in the central and southern zones bore terms, in 1917, of 5 per cent September 1, net November 1, in the Texas zone the dates were 1 month earlier, namely August 1 and October 1, and in the northern zone 1 month later, namely October 1 and December 1. The only changes in the 1920 report related to the carry clause, which now covers 25 per cent of shipments during the season in all zones other than the northern, where it applies to 50 per cent of the original order. Where unsold on September 1, it may be settled for by note due November 1 of the following year, less 5 per cent on September 1.

Tillage Implements.—In this class of implements relatively slight changes have occurred in the recommended

terms. Taking steel and chilled walking plows as typical, terms, in 1917, were as follows:

	Spring					Fall		
	Per cent	Discount date	Per cent	Discount date	Net date	Per cent	Discount date	Net date
Central	5	April 1	4	May 1	July 1	5	Sept. 1	Nov. 1
Northern	5	May 1	4	June 1	Sept. 1	5	Oct. 1	Dec. 1
Southern	5	March 1			June 1	5	Oct. 1	Jan. 1
Texas	5	Feb. 1			May 1	5	Oct. 1	Jan. 1

Various dates for shipment were also specified. In 1920, the only change was the elimination of the 4 per cent discount in the central and northern zones.

Thrashing Machinery and Tractors.—The manufacture of thrashers was developed by a few large firms, which gradually extended "their business into other lines, particularly into tractors and portable engines." Thrashing outfits, including engine and separator with an attachment for stacking straw and chaff, have been usually sold to thrashermen, who thrash grain on contract. Due to the expense of the outfits, credit sales have been required, assignment of earnings being taken as security. The manufacturers early were interested in the credit problem, and it was the principal matter considered at their first meeting in 1884. In November, 1909, a resolution was passed by the Thrasher Manufacturers' Association limiting the cash discount for the year 1911 to 6 per cent, and on single sales fixing a maximum discount to agents of 5 per cent 30 days. No cash discount was to be allowed after 90 days from delivery, and the date for the agent's cashing all his season's business was to be fixed in the contract. In 1912, it was reported that more complaints had been received than ever before

about selling on extremely long terms, and in the following year "resolutions were adopted recommending that members endeavor to increase cash payments and bring about shorter terms." In 1917, the National Implement and Vehicle Association established a tractor and thrasher department, and terms have been regularly considered by a committee. In 1919, the committee again recommended the terms adopted in 1918 for the year 1919, but inasmuch as two members had modified them, recommended that the modified terms be made known to all the members, and that the adopted terms be changed to meet these modifications. It was also recommended that one week's notice to the committee of adoption of more liberal terms by any member be required. The last recommended terms were as follows:

Class I (of specified power, or costing not over $1,500 to dealer).—

To consumers: C. O. D. or 1/2 C. O. D. and 1/2 in 6 months. Deferred maturity December 1. Future dating shipments after November 1 and before April 1 bear April 1 (northern zone May 1).

To dealers: Shipments after April 1, cash deposit of $50 on first tractor and $25 on each additional one. Note for balance due October 1 or earlier. Small separators—if necessary, 25 per cent on delivery, balance in fall of that or next year.

Class II ($1,500-$2,500).—Not over 2 falls.

Class III ($2,500 up).—Not over 3 falls.

Deposit required on all orders in Class I sold for cash on delivery, of $50 on first and $25 on each additional tractor. Discounts for cash on delivery, or on first fall, not over 6 per cent; or by dealer during first fall, not over 10 per cent, for payment by the following dates: In southern zone, September 1; central, October 1; northern

and Texas, November 1. Reports from various sources state that tractors are now sold largely on a cash basis.

Inasmuch as long terms have prevailed in the implement industry, the usual practice has been to take a promissory note to cover the net period, rather than to have it run on open account. These notes have varied in length from a few months to 3 or 4 years. During the last few years there has been a strong advocacy of the trade acceptance by the National Association. In 1916, a recommendation of the National Association of Credit Men was indorsed "that sellers send notes or acceptances for purchaser's signature with all invoices." There has also been an advocacy in some quarters of the elimination of the cash discount. In February, 1918, the wagon department recommended to the terms committee that it "work along the lines of the elimination of the cash discount, with the wider use of the trade acceptance." Accompanying these efforts has been an attempt to have the retail dealer in turn obtain paper, either note or trade acceptance, from the farmer, rather than to permit the account to run along on open account. Although the acceptance is used only to a limited extent, reports indicate that the users are generally satisfied with it.

Up to recently greater uniformity of terms and lessening of the credit period has existed. The financing burden has been shifted "from the manufacturer to the retail dealer and the local country bank." This change is reflected in the greater rapidity of turnover of capital invested by manufacturers, as is shown by the table opposite covering 22 companies:

The reduction of the length of the credit period not only increased the rate of turnover, but also decreased the amount of bills and accounts receivable, as well as the amount of capital required to carry on a given volume of business. This is illustrated in the following table, show-

Year	Total investment in implement business	Total net sales	Period required for one turnover (mos.)
1913	$355,782,398	$215,684,945	20
1914	390,351,286	195,647,453	24
1915	395,722,107	181,700,918	26
1916	383,526,911	200,848,125	23
1917	367,525,626	261,509,319	17
1918	386,408,735	326,636,666	14

ing the annual amount of bills and accounts receivable in the case of the above manufacturers:

Year	Bills receivable	Accounts receivable	Total
1913	$95,947,970	$64,549,983	$160,497,953
1914	96,180,296	68,627,542	164,807,838
1915	83,165,828	51,397,723	134,563,551
1916	60,755,297	45,525,797	106,281,094
1917	46,419,128	44,744,801	91,163,929
1918	42,538,712	44,512,811	87,051,523

It will be observed that from 1913 to 1918, the receivables had decreased almost 50 per cent, notwithstanding the increased prices of implements and the fact that gross sales of these companies increased during the period from $229,000,000 to $339,000,000. The decrease, it has been suggested, may have been due partly also to improved business conditions, which made it possible for farmers and retail dealers to pay cash for larger amounts of their goods.

The data which have been received relative to jobbers' operations indicate that in this, as in other industries, the jobber purchases largely on a cash basis, while selling on

credit to a considerable extent. Their own terms to dealers are stated generally to follow closely those made by manufacturers, the latter providing the standard.

Electrical Products.[6]—Considerable variety is found both in terms of sale and in marketing methods of electrical products. It is estimated that, on the whole, about 65 per cent of the output of electrical appliance manufacturers is sold to jobbers, 25 per cent to dealers and 10 per cent to consumers. Power apparatus, with the exception of small motors, is sold direct to central stations. About 75 per cent of jobbers' sales are to dealers and 25 per cent to consumers. There are a relatively few small manufacturers who sell direct to the consumer. Distributive methods vary greatly with the individual products, due in part to the great variety of users. These range all the way from railroads, street railways, telephone companies, central stations and industrial corporations on the one hand, to the individual buying for household use on the other, and the character of the articles differs accordingly.

In a general way, net terms granted by manufacturers are either 30 or 60 days, while cash discounts vary with different articles. Some bear no discount, while at the other extreme are articles bearing 5 per cent. Proximo terms are given in certain cases. On the average, on items handled through jobbers, manufacturers' terms are 2 per cent 10 days, net 60 days to jobbers and retailers and 2 per cent 10 days, net 30 days to consumers. Very large orders and orders of bulky apparatus, whether handled through middlemen or not, are sold largely on a contract basis. Datings are rare, but in certain cases a series of trade acceptances is used, each for 1/3 the amount, and maturing in 30, 60, and 90 days respectively.

[6] Acknowledgment is due Mr. Franklin Overbagh, General Secretary, Electrical Supply Jobbers' Association, for reading this section.

Jobbers, in general, give to their customers the same cash discounts as they receive from the manufacturers, but they may vary the net terms. The jobber's regular net terms are 30 days, while he may be quoted net 60 days, net 30 days, or no net from the manufacturer. In 1920 manufacturers were having considerable difficulty in keeping jobbers supplied, and consequently had considerable power in making their own terms, while, on the other hand, competition among jobbers still remained keen enough to make them inclined to give concessions to their customers. It is understood that these customers in many cases have run beyond the nominal net period. Offsetting the strategic position of the manufacturer is the rapid growth of the industry and the great number of specialty devices, which make the service of the jobber not only of great value but almost essential to the successful introduction of these products. In the jobbing of specialties it is stated that the jobber has been particularly favored due to the absence of reputable retail dealers, and the result has been that the jobber, receiving regular jobbing price quotations, has done retailing himself. However, this practice is declining as a class of reputable retail dealers develops.

The products of the industry may be classified into the following 5 groups, according to the cash discount allowed. These discounts are quoted both by manufacturers and by jobbers to all their customers.

1. No cash discount, net 30 days.
   - Telephone lead covered cable.
   - Poles.
   - Power motors and fans.
   - Transformers.
   - Railway supplies.
   - Telephone apparatus.
   - Testing instruments.
   - Meters.

High-tension insulators.
Washing machines.
Sewing machines.
Vacuum cleaners.
Dishwashers.
Arc lamps.

2. One-half per cent, 10 days.
Annunciator wire.
Bare copper wire.
Magnet wire.
Damp-proof office wire.
Weatherproof wire.

3. One per cent, 10 days.
Cross arms.
Lamp cord.
Rubber covered wire.
Lead covered wire.
Line hardware.

4. Two per cent, 10 days.
Heating material.
Condulets.
Dry batteries.
Storage batteries.
General supplies.
Porcelain (except high tension).
Sockets and receptacles.
Snap and push switches.
Klaxon horns.
Hughes ranges.
Ironing machines.
Incandescent lamps.

5. Five per cent, 10 days.
Condulet outlet boxes and covers.
Flexible metallic conduit conductors and fittings.
Rigid iron conduit.

The balance of the products are sold on a contract basis. This applies to rotaries, large motors and generators, large transformers, and large switchboards; that is, products which are usually sold direct to consumers, involving more or less installation work. Contracts are also used in the

case of large orders of any of the previously mentioned products. Standard contracts call for 50 per cent cash, sight draft, bill of lading attached, 40 per cent in 30 days, and 10 per cent in 60 days. These terms, however, are varied in accordance with the credit standing of the customer as well as the progress of the installation work, the last payment in the latter case being so arranged as to fall due when the work is completed. Selling goods on consignment is an exception, but some large manufacturers of fan motors sell their product on this basis. Some manufacturers grant 10th proximo terms to approved customers or to those settling regularly on a monthly basis. In certain cases semi-monthly settlement, for example on the 10th and 25th, is provided. On large orders of electrical wiring devices the standard contract terms are 1/3 on delivery, 1/3 in 30 days, and 1/3 in 60 days.

The regular net terms of jobbers are 30 days, while the discounts granted are those already indicated. Interest is generally at the rate of 6 per cent after the due date is passed, and overdue bills are subject to sight draft without notice. The trade acceptance is used more by jobbers in this line than by manufacturers and as a matter of fact is quite generally used. Thirty-day acceptances are most common and are mailed with the statement on an average 15 days after the sale, so that settlement occurs in 45 days, which corresponds to the current collection period on open accounts. Some customers may give a 60-day trade acceptance, instead of the 30-day. Jobbers may allow their large customers to settle on the 10th proximo.

Coal and Coke.[7]—Anthracite coal is generally sold by the railroad coal companies through sales agents direct to manufacturing plants and to dealers. While several of

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[7] Acknowledgment is due Mr. Geo. H. Cushing, Managing Director, American Wholesale Coal Association, for reading this section.

the independent producers sell to retailers direct,[8] the greater number market their coal through "jobbers" on a commission basis, and a few sell outright to jobbers and retailers, disposing of their product from week to week to the highest bidders. A considerable amount of coal is consigned by producers to local wholesalers or retailers. Jobbing, in the restricted sense of sale by carload or barge load without physical handling but with outright purchase of the coal (thus excluding sales agencies) is on the whole relatively small in the case of anthracite, but a considerable proportion of bituminous coal is handled through jobbers. The methods of transacting the business are less rigid and definitely fixed in the case of bituminous coal, in particular with regard to retail dealers who handle the same. Jobbers in large part, however, do not rigidly confine themselves to handling only either anthracite or bituminous. In the case of anthracite there is a considerable overlapping between the two classes of jobbers. Most jobbers supply the local trade only, although a few maintain branch offices at various points. In certain centers, for example, Buffalo, Detroit, and Chicago, there exist, in addition, local wholesale trestle and dock companies, who in some cases do also a retail business.

In certain sections of the country, the movement of coal is distinctly seasonal, whereas in other sections it is stored to a greater or lesser extent. The territory beyond the head of the Great Lakes is very largely supplied by shipments up the lakes during the summer, which are stored on the docks and shipped out during the fall and winter months as needed. Some all-rail coal from Illinois and Indiana fields, however, goes to the Northwest during the winter. To a certain extent winter supplies of coal are

[8] The data relative to anthracite coal contained in this paragraph have been taken from the Report of the Federal Trade Commission on *Anthracite and Bituminous Coal,* June 20, 1917.

moved into New England during the summer, although both rail and water-line coal also move in during the winter. There is some storage in northern New York. Bituminous coal is stored to some extent during the summer by business houses, but over the remainder of the United States the movement of coal is largely seasonal. As is well known, storage is more difficult in the case of bituminous than in the case of anthracite, both because of the deterioration of the softer bituminous and because of danger of spontaneous combustion when the coal is not properly stored.

Distinction should be made in the methods of conducting business between the territory east of a line north and south through Erie and Pittsburgh, and the territory west thereof extending to the Rocky Mountains. In the East the tonnage is larger, the qualities of coal differ, and methods of merchandising are entirely different from those in the West. In the East supply and demand are more nearly equal, whereas in the western section a buyer's market has almost uniformly prevailed. There has been a corresponding difference in the degree to which business terms may be insisted upon.

Producers' terms on anthracite are practically universally net 30 days. In certain cases proximo terms, for example, the 15th, are provided. Provision is made for the requirement of payment in advance for further shipments if the credit of the customer is impaired, or cancellation of the contract at the seller's option in case the amount is unpaid. In certain cases anticipation at the rate of 6 per cent per annum is provided, or 1/2 per cent is given for payment within 10 days. The same rate of interest is charged on overdue accounts. The coal which is purchased outright by dock companies at the head of the Great Lakes, rather than handled on consignment, generally bears terms of net 60 days from date of bill of lading.

Bituminous coal is generally sold by producers on

proximo terms, the 15th being perhaps most frequent, although dates range from the 10th to the 25th. In some cases settlement twice a month, for example, by the 5th and 20th, is required. While proximo terms are customary in the case of contract business, in some cases net 30 days is specified, and it is largely used for spot or open market sales. Longer terms, such as 60 days, are given in some instances, although producers in many cases use the uniform sales contract containing a clause similar to that contained in the anthracite producers' contract providing for cancellation of the contract at the seller's option in case the account is unpaid, or the credit of the purchaser is impaired, also that accounts 10 days overdue are subject to sight draft with interest from time of maturity.

This by no means implies, however, that settlement has been prompt in all cases.[9] From certain sections it has been stated that purchasers largely run beyond the due date, one producer stating that payments in general are effected from 15 to 45 days thereafter, and that although it is endeavored to collect interest for the extra time taken, it is next to impossible to do so. In one field an account is rarely considered old until 60 days past due while it is stated in others, that few purchasers make payments until the coal reaches its destination, and some only on the 10th proximo thereafter. Payment is thus made on the basis of coal received rather than on coal shipped.

The railroads are stated often to take up to 90 days, while in certain cases longer terms are given them than are given other purchasers. In several western fields large steam users receive up to 60 days, whereas 30-day terms are specified for ordinary consumers and dealers. Lake and tidewater shipments, on account of longer time between

[9] Operators at times, however, may receive payment in less than the customary 30 days, in order to encourage shipments or to assist in financing them.

date of shipment and actual consumption of the coal, also bear longer terms than do ordinary shipments, net 30 or 60 days from date of loading at the port being frequent, although in some cases interest at the rate of 6 per cent per annum is charged for time beyond 30 days. When this extra time is given, the purchaser is stated usually to sign an acceptance. Discounts for cash are very rare. In some cases anticipation is allowed at the rate of 6 per cent per annum, in other cases, 1/2 per cent 10 days is given, while in one of the southern fields cash discounts up to 2 per cent are reported.

Coke, in particular by-product coke, is produced by certain of the large consumers themselves, or by plants which they control. All coke is generally sold on terms calling for payment by the 20th proximo, but in some cases the 10th, 15th, or 25th is specified. Certain purchasers are stated to elect to make settlement twice a month instead. A sight draft with bill of lading attached, as in other industries, is generally used only in the case of poor credit risks. Furnace coke is largely sold to steel producers, but there are many small foundries which purchase foundry coke. At times the financial responsibility of some foundries is somewhat impaired, but ordinarily little difficulty is found in making collections. In very rare cases, a note is accepted for foundry or domestic coke that is put into stock for future use. There have been no general changes in terms in the coal and coke industry for 15 years or more.

Wholesalers' terms on both anthracite and bituminous in large measure parallel operators'. Proximo terms are largely employed, such as the 10th and 15th. Anticipation is permitted in certain cases, such as for tidewater coal at New York, at the rate of 6 per cent per annum, corresponding to a cash basis of 1 per cent. Spot sales on anthracite at New York bear the same terms as contract sales, namely, 15th proximo (formerly the 25th), although sales are often

made for cash, and a slightly lesser price, such as 5 cents per ton, is quoted in such cases. The average purchaser of bituminous is said to be less prompt than the average retailer of anthracite, and accounts, for example, at New York and Boston, often run to 90 or 120 days. When business is normal it is stated from Boston that anthracite wholesalers often extend considerably longer than 30 days, but in times of shortage the prompt collections made by retailers enable prompter payment of wholesalers. It was stated in the study cited above that the extension of credit has some influence upon the choice of coal handled by the local dealer, and practical and exclusive connections are made when he is carried by the wholesaler.

Petroleum.[10]—The commercial organization of the petroleum industry at the present time is exceedingly complex.[11] Whereas in the earlier days there was a rather well-defined division of the field into production, transportation, refining and marketing (though the latter two were often combined), there is now considerable combination of all four classes of business. There is an increasing tendency for the larger units to sell to consumers, and the systems of service and filling stations are being steadily extended, as well as the tank-wagon service. In the remote sections there is, of course, the greatest dependence upon the local dealer.

The method of marketing varies with the type of product. Crude oil is purchased by refiners to some extent, although the larger companies obtain a considerable supply from their own wells or those of affiliated companies. Refiners, to some extent, sell the various petroleum products to one another. Aside from such sales, the lighter products, such as gasoline and kerosene, as well as lubricating oil, are sold

[10] Acknowledgment is due Mr. A. S. Price, Credit Manager, Tide Water Oil Co., for reading this section.

[11] Certain of the data on this subject have been taken from the studies of the Federal Trade Commission, in particular the Report on *The Price of Gasoline in 1915*, April 11, 1917.

by refiners to jobbers and retailers, and direct to large consumers. Fuel oil (including also gas oil and road oil), on the other hand, while often sold to jobbers, is usually sold direct to consumers, estimates placing the amount so sold at upwards of 80 to 90 per cent of the output. In certain cases refiners dispose only of their surplus products, such as fuel oil, to jobbers, while selling the other products direct to retailers and consumers. In the Middle Western States, a large number of relatively small refiners have grown up, who depend to a great extent upon separate jobbers for the marketing of their products, which, however, include relatively little lubricating oil. Jobbers' customers are stated by some to be considerably smaller than customers of refiners. Middle western refiners' sales to jobbers vary in amount from 1 to 1,000 tank cars, and sales of from 100 to 200 cars are very common. Sales from jobbers to dealers and consumers range in amount from 5 to 1,000 gallons, delivery usually being made from tank wagon, except in the case of lubricating oil, which is usually shipped in drums of 50 gallons.

Judging from the data available, there appears to have been little attempt to obtain absolute uniformity of terms in the industry during the past decade. Only one instance has come to notice of formal recommendation of terms. In 1913, a middle western association representing independent marketing interests adopted a set of regulations to govern trading in petroleum. These regulations were concerned more particularly with questions such as fixing standards for the various petroleum products in order to avoid disputes over the specific gravity or viscosity of oils, what constitutes a good delivery, etc. The regulations contained a section dealing with terms, and were revised in 1915. Regular terms, however, are generally recognized for each of the principal classes of petroleum products. A basis for an understanding of the differences in terms as

between the various products is afforded by the differences in marketing methods outlined above. For several years there was a shortening of terms on the refined products, in particular about 1918. The trade acceptance also came into some use. It is estimated by a large eastern refiner in 1920, that collections in the industry, in general, averaged about 45 days. Garages on the whole were slowest pay.

Turning to the individual products, crude oil is sold on strictly net terms. Settlement is required either once or twice a month. The dates are stated generally to be the 10th and 25th in the mid-continent field. In some sections considerable variation is noted, different California refiners, for example, placing the figure variously at the 10th, 20th, and the 15th to the 25th.

The shortening of terms in the industry is well illustrated in the case of the lighter refined products, such as gasoline and kerosene. These now bear terms of net 30 days. Proximo terms such as the 15th may be specified in certain cases. A discount of 1 per cent for payment within 10 days prevails in some sections, in particular the mid-continent field, and such, in fact, are the recommended terms on these products mentioned above. These products are stated to be generally considered as cash products in that field, and it is said that the customer who takes 30 days' time is frequently regarded as undesirable, almost all firms discounting their bills. A sight draft has largely succeeded the use of the recommended terms for all the classes of refined petroleum products. Prior to December 1, 1918, a cash discount of 2 per cent 10 days had been allowed in California in many cases, although one of the leading companies had as its terms 2 per cent 10 days, net 60 days, when contained in cases, drums, and iron barrels, and 1 per cent 10 days, net 60 days, under special contract at special prices. Prior to about 1918, the net period was largely 60 days in many sections.

Distinction is made by certain refiners between carload shipments on the one hand and less-than-carload shipments and deliveries in bulk from stations and out of tank wagons on the other hand, corresponding in considerable measure to a difference in type of purchaser. Oil jobbers having bulk storage purchase in carload lots, which they barrel or can and ship to factories, garages, and storekeepers. Gasoline is sold by refiners, in addition to tractor and automobile manufacturers and to large garages. Whereas the carload shipments bear the regular terms given above, less-than-carload shipments bear considerably shorter terms. In particular, for tank-wagon deliveries and filling-station sales net cash is largely required. Weekly or 10-day settlement is now specified in certain cases, whereas formerly monthly settlement was largely permitted and is still to some extent. These terms apply, in general, to other refined products also.

Branded automobile oils are sold in carload lots by only a small number of the larger companies, the purchasers being garages and automobile-accessory jobbers. Terms on both carload and less-than-carload business are largely 1 per cent 10 days, net 30 days. In the case of lubricating oils and greases and wax, carload lots are sold more particularly to jobbers such as mentioned above. One refiner applies the regular net 30-day terms to carload business but grants a discount of 1 per cent 10 days on less-than-carload shipments and bulk deliveries from stations and out of tank wagons. In the latter sphere competition is experienced, not only with the limited number of refiners doing a carload business, but also with those refiners doing a less-than-carload business and the jobbers who do practically nothing but a less-than-carload business. In California the discount was eliminated December 1, 1918, and terms are now net 30 days or net 60 days, proximo terms, such as the 10th, being employed in some cases, whereas formerly

a 2 per cent discount had been largely given. A leading refiner selling largely to railways has terms of net 60 days. The product in general, however, still largely carries a cash discount. In the mid-continent field terms are either 2 per cent 10 days, net 60 days, or 1 per cent 10 days, net 30 days. The former are also the terms recommended by the association mentioned above, but prior to 1915 the net period was only 30 days. Each of the two sets of terms prevalent in the mid-continent field is now used by some of the larger refiners in other sections, and no absolute uniformity of practice prevails. A more or less general tendency, however, has appeared to be evident toward terms of 1 per cent 10 days, net 30 days. It has been suggested that the generally longer terms and cash discount prevalent on lubricating products are due to the fact that they are more of a specialty and consequently of a less rapid turnover as compared with other products, such as gasoline.

Terms on fuel oil (including gas oil and road oil) are almost uniformly net 30 days. In certain cases proximo terms are employed, such as the 10th. A middle western jobber, however, reports that he receives a cash discount of 1 per cent 10 days from refiners on this product, and a large refiner states that such terms were occasionally given up to about four years ago. In the Southwest, cash on delivery is largely specified. These terms obtain also on bunker deliveries. In some instances up to 90 days is given to contractors in the case of sales of road oil, while terms of a leading refiner are net 60 days to roofing manufacturers. Purchasers of all three products, as a rule, pay more promptly than do purchasers of the other two principal classes of products. Municipalities are stated to be the slowest-paying type of purchaser of this class of product. In certain southwestern districts, in particular in rice-growing sections, fuel distillate is delivered to farmers

on contract in the spring and summer, with October 1 or November 1 due date.

It is stated rather often in the industry that jobbers' terms are longer than refiners' on similar products. In the case of the lighter oils, less than carload shipments, in general, bear terms of 1 per cent 10 days, net 30 days, and lubricating oil bears instead a discount of 2 per cent. In some cases, middle western jobbers' terms are given as net 30 days on gasoline and net 60 days on lubricating oil. Certain jobbers, however, state that, while their terms from refiners on the several products differ as indicated above, they endeavor to make their terms uniformly 1 per cent 10 days, net 30 days, on all products. The net period on lubricating oil some years ago was 60 days. In some cases 1/2 per cent 10 days, net 30 days, is quoted on refined oil and gasoline and 1 per cent 10 days, net 30 days, on lubricating products. While these are the nominal terms, purchasers are stated in certain cases to take longer time. It is reported that from 60 days to 6 months is frequently extended by middle western jobbers. Tank-wagon deliveries of gasoline and kerosene, however, are usually on a net cash basis, as in the case of similar sales by refiners. In some cases the time has been reduced from 15 to 30 days since about 1917.

CHAPTER XIV

THE TEXTILE MANUFACTURING AND DRY GOODS INDUSTRIES

The present chapter deals with a group of articles which are destined, in last analysis, chiefly for consumptive instead of for industrial use.[1] Most important among these products is cloth, either cotton, wool or silk. It passes into use via one of two channels—the garment manufacturer producing ready-to-wear apparel, or the distributor. Consideration of terms in the apparel lines will be deferred until the following chapter.

An outstanding feature from the point of view of terms of sale is the fact that the goods pass into consumption largely at certain seasons of the year. This means that the retailer must defer payment until he has in hand receipts from his period of heavy sales. This may be done either through a regular season dating or through an extra dating. Similarly, the wholesale distributor and the clothing manufacturer also require time and obtain a dating from the cloth manufacturer. In other words, the period of time elapsing between initial manufacture and final purchase by the consumer is divided between the several factors engaged in producing and distributing the article, and each bears part of the burden. Only in certain cases, such as for articles serving manufacturers as raw material (for example, yarns and cotton grey goods) is it possible to have terms approximate cash. Net 10 days, in fact, is often specified for these articles.

[1] Certain of the data relative to methods of distribution in the textile industry contained in this chapter have been taken from Cherington, *The Wool Industry* (Chicago, 1916).

The manner in which the carrying burden is divided depends on the relative strength of cloth manufacturer and wholesale distributor or clothing manufacturer. The retailer in any event is carried until his sales season. The problem is accentuated by the fact that these industries are by no means concentrated and a large number of individuals are found in them who possess little capital. Accordingly, considerable lack of uniformity in terms is possible and furthermore the terms tend to vary at different times according to market conditions. During the war period there was considerable scarcity of some classes of goods, such as certain cottons, underwear and hosiery, and manufacturers in many instances shortened their terms to 10 days.

The discounts quoted in these lines are of two kinds. They may conveniently be termed respectively the dry-goods and the apparel discounts. The standard dry-goods terms are 2 per cent 10 days, 60 days extra, with season dating in some cases, and these apply as well to manufacturers' sales under normal conditions of cotton goods and underwear. On the other hand, in the distinctly apparel lines high discounts are the rule. These are found both for woolen piece goods and men's-wear jobbers, silks, laces and embroideries. The standard woolen terms, for example, are 7 per cent 4 months and graded discounts are employed, the highest discount being 10 per cent 10 days. In all the apparel lines these graded discounts (declining in size as the terms lengthen) are found as a general rule. It should be noted, however, that during the war period certain woolen manufacturers were able to change terms generally to either 10 per cent 30 days or net 30 days.

Cotton[2] *Yarns and Thread*—Cotton thread is sold to both manufacturers of garments, etc., and to wholesalers

[2] Acknowledgment is due Mr. Elroy Curtis of Seaboard Mills, Inc., New York; Mr. Melbourne Smith, Managing Editor, and Mr. Harry Riemer, Cotton Goods Editor, *Daily News Record*, for reading this section.

and retailers. There are two corresponding special branches of the industry, manufacturers in many cases producing only thread for one of the two uses. On a yardage basis, about half the output consists of each type. Sales are made through selling agents or branch houses. It is estimated that from 70 to 80 per cent of the domestic line is sold to jobbers as against retailers. Terms, however, are uniformly 2 per cent 10 days, 1 per cent 30 days, net 60 days, e. o. m. terms being given in certain cases.

The large majority of cloth manufacturers produce their own yarns.[8] On the other hand, the bulk of the knitters buy their yarn, although there was for a time a considerable tendency among knitting mills to install spinning plants. Sales by yarn manufacturers are made either direct to these two classes of purchasers, or through brokers and commission houses. A tendency toward direct sale is reported, in particular for hosiery yarns. It has been estimated that roughly 50 per cent of southern spinners market their entire production through commission houses. Less use is made of middlemen by northern manufacturers.

With respect to terms of sale, weaving yarns must be distinguished from knitting yarns. Hosiery yarns often form a special group under the latter category. In addition, distinction must be made between eastern and southern yarns. In general, southern weaving yarns alone bear terms of 3 per cent 10 days e. o. m. Southern knitting yarns and eastern yarns, both weaving and knitting, are sold on terms of 2 per cent 10 days e. o. m. or 2 per cent 30 days. In Philadelphia, however, a special arrangement prevails calling for 3 per cent 30 days.

[8] Manufacturers of automobile tires, however, offered such inducements in 1919-20 that many weaving mills gave over the largest part of their spinning equipment to the manufacture of tire yarn and went out in the market to buy the yarn needed for their own cloths.

These terms are, however, by no means universally employed, and many variations are found. Some eastern manufacturers have terms of 2 per cent 10 days, net 30 days or 60 days. The latter terms apply more frequently on knitting yarns. Net terms are more largely given by middlemen than by spinners, especially on sales to smaller manufacturers of knit goods, who buy more or less generally from commission houses. Sweater yarns are often sold on terms of net 10 days e. o. m., but in some cases 30 days or occasionally 60 days extra may be given with a cash discount of 2 per cent 10 days.

One southern manufacturer reports an effort, after the war orders were over, to eliminate the discount and sell for net cash, which was opposed by brokers and commission merchants, who forced a return to the old terms. Another, however, states that many mills have succeeded in eliminating the discount.

Collections in the cotton-yarn industry in general are reported prompt. Several manufacturers report them quicker through commission houses than on direct shipments.

Grey Goods.—The bulk of the cotton yarn produced is undyed, and is made up first into grey goods—that is, undyed and unbleached goods. Part of these goods are to be used in the grey and are sold to the jobber, while part are sold to industrial consumers, such as manufacturers of mechanical rubber goods and the bag trade. The bulk, however, require further treatment. They are then printed, finished, or converted either by the cloth manufacturer himself or by the merchant converter. The latter buys grey goods, has a professional converter convert them for him, and then sells the finished product to the same classes of purchasers as does the cloth manufacturer who does his own converting, namely, to jobbers, retailers, and the cutting-up trade. It is estimated that roughly 25 per cent

of the output of grey cloth is finished by the weaver, and that the balance is finished by converters.[4]

The merchant converter buys grey goods either direct from the cloth manufacturer or through the medium of a broker. Fall River manufacturers sell their product almost entirely through brokers, and similarly with a few southern mills. New York commission houses, it is estimated, sell half their mills' products direct, instead of through brokers. It is stated that fine goods, novelties, and special cloths are handled practically entirely by brokers.

The distributive methods, of course, vary with the type of product. Certain goods are sold to the industrial consumer. It has been estimated that of the total output of grey goods, 10 per cent is sold to jobbers, who either convert the goods or resell them to retailers for use in the grey, while the balance is sold to converters and printers on the one hand and industrial consumers on the other hand.

Formerly a distinction was made in terms between print cloths and finer goods, which were generally sold on terms of net 10 days, and sheetings and coarser goods, which (in the case of materials sold to jobbers for resale in the grey) were generally sold on the dry goods terms of 2 per cent 10 days, 60 days extra,[5] or 3 per cent 10 days, and (in the case of heavy cotton goods sold to industrial consumers) on terms of 2 per cent 10 days (in some cases 2 per cent 10 days e. o. m.). As a result of the war, and in connection with price fixing, the terms on coarser goods were also reduced, in 1917, to net 10 days, and the New York freight allowance formerly given by southern mills was eliminated. After the armistice, however, freight concessions were again granted by some mills, in addition to returning in certain cases to the old terms of 2 per cent 10 days, 60 days extra.

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[4] Goods coming from the weaver finished, however, are largely colored yarn goods, such as shirtings, ginghams, denims, cheviots, and tickings.

[5] These terms generally apply on all seconds also.

It is estimated, however, that, due to the heavy demand for goods, 75 per cent of the mills were able to continue to sell on the shorter terms. The old terms are again used in the case of certain classes of grey goods, such as sheetings, due to competition.[6] Present terms thus are in general net 10 days, while in some cases 2 per cent 10 days; 2 per cent 10 days or net 60 days; and 3 per cent 10 days, or 2 per cent 10 days 60 days extra are given. It is stated that jobbers generally wish to be quoted the last-named terms.

Finished Cotton Goods.—It has been estimated roughly that upwards of 50 per cent of the total output of finished cotton goods is sold to jobbers, 30 to 35 per cent to the cutting-up trade, and the balance to retailers. The methods of distribution, however, vary according to the particular type of product and the corresponding type of purchaser. The large jobbers do some converting themselves, more particularly of the cheaper staples than of the more expensive style goods. High-class wash goods, 75 per cent of which go to the consumer over the counters of the stores in the large cities, are bought direct from the converter, while cheap calicos or percales, of which probably only 25 per cent are distributed through the retailer in the large city, are sold by the converter to the jobber, who in turn sells them to the merchant in the smaller town.

Staples must be distinguished from season goods. The former, which are sold all the year round, include goods such as bleached cottons, bleached cambrics, and bleached twills. Linings and shirtings are generally classed as staple goods, although they may be sold also as spring or fall goods, according to the character of the particular item.

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[6] Grey goods have many special uses, in which cases terms differ from the general terms. Grey goods used for house linings afford an example. These are sold to jobbers, who in turn sell to paper hangers. Due probably to the length of time required in building, they are again sold on the old terms of 2 per cent 10 days, 60 days extra.

Dress goods, draperies, percales, and cambrics are examples of two season goods, while wash goods are classed as spring goods, and blankets and (at times) flannels as fall goods.

Terms on finished converted or bleached goods are almost universally 2 per cent 10 days, 60 days extra on staples and on season goods between seasons. Season datings are April 1 and October 1 and apply on sales to both jobbers and retailers, although deliveries to retailers are made considerably later than deliveries to jobbers. Terms, in general, have been shortened. Many manufacturers have succeeded in abolishing season datings, although several have since restored them. Anticipation at the rate of 6 per cent per annum is usually permitted. This gives a discount of 3 per cent 10 days, which at times is quoted in addition to the regular terms. Poor credit risks at times are quoted only 3 per cent 10 days, or 3 per cent C. O. D. or cash before delivery.

Certain types of products at times bear other than the regular terms. Occasionally a converter will give 4 months, irrespective of the kind of goods or type of buyer. Converters who deviate from the regular terms of 2 per cent 10 days, 60 days extra, often have no permanent discount terms, but vary these with the rise and fall of the market. Little use is reported by manufacturers of trade acceptances.

Silk[7] *Yarns and Thread*—Silk yarns are of two kinds, spun and thrown. The former is a thread spun from short strands of silk derived from waste made in raw silk reeling establishments, as well as in subsequent handling of the thread in the undyed state, and from pierced cocoons (cocoons from which the moths, reserved for breeding, have emerged). Thrown silk is composed of several strands of the silken thread as it is reeled directly from the cocoon.

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[7] Acknowledgment is due Miss M. R. Birmingham, Assistant Secretary, Silk Association of America, for reading this section.

Spun silk is used more largely for weaving, while thrown is used in the manufacture of almost all classes of goods. It is roughly estimated that at the present time about 10 pounds of thrown silk are used to one pound of spun silk. While a considerable proportion of the spun silk consumed in this country is still imported from France, Italy, Switzerland, with a small amount from Japan, the production of American mills has increased largely during the past 10 years.

Up to 4 or 5 years ago it was rather customary to give 6 per cent 10 days, 5 per cent 30 days on spun silk, e. o. m. terms prevailing in some cases. The terms are stated to have originated with one of the larger manufacturers, producing a great quantity of silk products, when they were leaders in the spun silk branch of the industry. Within the last 4 or 5 years, however, there has been a tendency to shorten terms and to put the industry on practically a 10-day cash basis. The tendency was accentuated by the fact that the manufacture of spun silk requires considerable capital, much more proportionately than for weaving or throwing.

The standard trade rules recently adopted by the Spun Silk Division of The Silk Association of America specify that the selling terms shall be 2 per cent 10 days, net 30 days. All prices are f. o. b. seller's shipping point. Accounts shall be payable free of exchange in United States currency or its equivalent.

Thrown silk is now sold largely by manufacturers of this product, and by dealers, to weaving and knitting mills. While the greater portion of raw silk imports are still handled by the manufacturers of silk fabrics, either in their own throwing mills or by sending to commission throwsters, the selling of thrown silk has grown very rapidly during the past 10 years and is expected to continue. Terms of sale in this branch of the industry vary somewhat,

but generally are: to weavers 2 per cent 10 days, net 3 months' trade acceptance; to knitters 2 per cent 10 days, net e. o. m. In some cases open accounts are carried for 60 or 90 days.

Sewing silk, silk twists and embroidery silks are produced in general by mills specializing in these products. The terms which are almost universally employed by these "small goods" manufacturers are 2 per cent 10 days e. o. m., net 30 days.

Broad Silks and Ribbons.—Woven silks fall into two general classes: broad silks and ribbons.

Of broad silks it is estimated for the year 1919 that about 60 per cent of the total output were grege goods (woven before dyed), 40 per cent skein dyed (dyed before woven). Grege goods represent such fabrics as wash crepes, georgettes, crepe de chines, meteors; foulards and radiums; shirtings; spun silk and cotton-filled satins; artificial silk-mixed goods; chiffons; cotton and wool-filled poplins; taffetalines. Skein-dyed goods represent such fabrics as taffetas, peau de cygnes, messalines, and fancies; also tie silks, inclusive of Jacquards; and men's wear, upholstery, and umbrella-silks. Grege goods are freely sold through converters, while skein-dyed goods are largely marketed by the manufacturer. Converters financially able to do so, buy grege goods in the raw direct from the mill without intermediate banking or commission facilities on terms of net 10 days or net 10 days e. o. m.

It has been estimated that about 30 to 35 per cent of the output of the silk fabrics industry is sold by manufacturers to the cutting-up trade, 25 per cent to the wholesale dry goods trade, and 40 per cent to retailers. Jobbing increased materially during the war, as in other branches of the textile industry, although there is a tendency noticeable now to curtail this business in view of the unreliability of many of the smaller and newer jobbing houses. Probably

40 per cent of all dress silks (inclusive of linings for women's clothes) goes to garment manufacturers (cutters-up), while about 75 per cent of all men's lining silks goes direct to the men's clothing manufacturers.

Of ribbons, probably 7 1/2 per cent goes to the cutting-up trade, 22 1/2 per cent to the wholesaler, and 70 per cent to the retailer. The proportion sold to each of the three classes of purchasers, of course, varies from year to year with the trend of fashion. Thus the percentage of ribbons sold to the cutting-up trade increased in 1919, due to the increased use of the product in the trimming of dresses.

In June, 1912, and by revision in December, 1920, the Broad Silk Manufacturers Division of The Silk Association of America adopted a set of "rules to govern transactions between buyers and sellers of broad silks," to apply to cases not covered by specific contracts. The rules include the subject of terms, and recognize existing practice. The terms specified are 6 per cent 10 days, 60 days' dating, and the privilege is given to buyer of anticipating payment at the rate of 6 per cent per annum. Overdue bills are payable upon the basis of a reduction in the discount rate of 1 per cent for each 30 days or fraction thereof overdue, and after net due date are subject to an interest charge of 6 per cent per annum. The terms, however, vary according to the responsibility of the purchaser, some buyers buying on 30 days with discount of 5 per cent, others on 10 days, with discount of 7 per cent, and still others net cash, with discount of 8 per cent. Certain variations, of course, occur, such as the giving of a season's dating on sample pieces, a practice, however, which has in part disappeared.

Japanese goods, as well as domestic shirtings converted, are generally sold on a 3 per cent 10 days, or 2 per cent 10 days, 60 days' dating basis. Men's lining silks prior

to the war were sold to clothing manufacturers largely on the basis of 7 per cent 4 months' dating, or 10 per cent 10 days, which terms were identical with those of the woolen manufacturers. About 4 years ago a number of specialists in these lining silks instituted the change to 2 per cent 10 days, 60 days' dating, which terms are now generally observed.

The trade acceptance is far from being generally used in the industry. While some firms are said to insist upon trade acceptances in all transactions, other manufacturers do not employ them at all. In normal times collections by the larger houses are made promptly within 70 days from date of invoice.

In October, 1912, the Ribbon Manufacturers Division of The Silk Association of America adopted rules covering the ribbon industry. The terms specified were 6 per cent 10 days, 60 days' dating, with anticipation permitted at the rate of 6 per cent per annum. This gives a discount of 7 per cent 10 days, which in fact is specified in certain cases, such as for the smaller trade. Bills to the cutting-up trade, and to some department stores, are payable on the 10th of the month less 7 per cent. These terms were in general use prior to their formal adoption. Six or 7 years ago the millinery trade received a season dating of April 15 and October 15, on December 1 to February 1 shipments and June 1 to August 1 shipments respectively. Since that time the dating has been advanced to April 1 and October 1, and at the present time, this season dating is granted to larger houses only. Terms to the smaller houses, as well as for shipments after the dates given above, bear the regular terms of 6 per cent 10 days, 60 days' dating. Strictly millinery houses, in some cases, have obtained this season dating on other classes of goods also and the dating is often used with wholesale dry goods houses. It is stated that the use of the trade acceptance in the silk ribbon industry is

regarded as impracticable, especially for the local trade, due to the small size of orders.

Woolen and Worsted *Yarns.*[8]—Several estimates place the percentage of yarns sold through agents representing the mills, usually several at one time, as from 70 to 75 per cent, the balance being marketed direct from the spinner. A certain amount of worsted knitting yarns is stated, however, to be handled by jobbers who deal out small quantities from time to time to small knitters with a few machines. A government survey made in August, 1918, showed that 86.5 per cent of the woolen yarn produced was used in the plants of the spinner, while of worsted yarn produced under the Bradford system 56 per cent, and of worsted yarn produced under the French system only 28 per cent was so used. The percentages of the output sold were thus, respectively, 13.5, 44, and 72. The total output of each class was, respectively, 8,233,000, 3,349,000, and 1,048,000 pounds. The proportion of their yarns which manufacturers purchase differs also according to the type of product, whether knit goods or men's or women's wear. It has been stated that knitting mills buy all their worsted yarn and approximately 80 per cent of their woolen yarn. Weavers of men's wear buy approximately 40 per cent of their worsted yarn and 15 per cent of their woolen yarn, while weavers of dress goods buy approximately 60 per cent of their worsted yarn and 90 per cent of their woolen yarn.

Terms vary somewhat. The regular terms on both classes of yarns are 2 per cent 10 days, net 60 days, but some manufacturers give a discount of only 1 per cent. Two per cent 10 days e. o. m. has become quite a general practice, in particular for the underwear and hosiery trade. The men's wear trade generally receives the regular terms, while sweater manufacturers endeavor to purchase on

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[8] Acknowledgment is due Mr. Melbourne Smith, Managing Editor, *Daily News Record*, for reading this section.

terms of 2 per cent 10 days, 60 days extra, which extreme terms are given on shipments to some western knitters. The sweater manufacturers' association passed a resolution, in 1920, in favor of such terms. The spinners' association has opposed granting them, and endeavored during the war to standardize terms on all classes of yarns at 2 per cent 10 days. It was found, however, that traditionally different classes of purchasers had always had different terms, and certain factors were not in sympathy with the effort. On the whole there have been no material changes in terms during the last decade. Collections are stated to have been more prompt than formerly, and a greater percentage of manufacturers take the discount, although the sweater trade tends to be somewhat slow.

Piece Goods.—These products are divided into two principal classes: men's wear and women's wear. More women's wear passes through commission houses than is the case in men's wear, but both classes are sold more largely at the present time through mill agencies than through commission houses. Few of the old line commission houses remain, most of the so-called commission houses owning their own mills. Sales are made to two classes of purchasers: the cutting-up trade and the over-the-counter trade. The former is typified by the clothing manufacturer, the latter by the jobber and retailer. The proportion, in particular in women's wear, which is sold to the two different types varies according to the current style. Thus the prevalence of soft-draped effects increases the over-the-counter trade, while the prevalence of close-fitted styles increases the ready-to-wear business and thus the proportion of the output sold to the cutting-up trade. Jobbing increased greatly during the war period, due to the scarcity of goods. The jobber not only figured as a regular link in the distributive chain between manufacturer and retailer or

tailor, but also in a trading capacity, and the same piece of goods frequently changed hands 5 or 6 times before passing into actual consumption. The industry is distinctly seasonal, and men's wear lines generally open in January to February for heavy-weight fabrics and July to August for light weights. Large manufacturers of staples and semi-staple dress goods generally open a month or so later, and a number of small manufacturers of fancies open their lines no earlier than do the jobbers, namely, 2 or 3 months after manufacturers' openings. "Hand-to-mouth" buying prevails to a larger extent on women's wear, due to greater style risk.

It is stated by one authority that, prior to about 1893, the terms were uniformly 10 per cent 10 days, 9 per cent 30 days, 8 per cent 60 days, or 7 per cent 4 months, with season datings of June 30 and December 31. Whereas previously practically all woolen goods had been distributed through the old-fashioned commission houses, in that year the present system of separating the merchandising and financial ends of the distribution of woolens began, and the largest of the old commission houses gradually dropped the merchandise end of the business and confined themselves to acting as factors. At the same time gradual shortening of the long dating originally given by the old commission houses was taking place. Little agreement, however, exists as to the details of this movement, but the change is said to have been particularly marked about 1912. At that time there was a movement of manufacturers away from commission houses, and these mills in large part employed terms of net 30 days. Other manufacturers, however, continued to employ the regular terms of 7 per cent 4 months in general, with optional discounts of 10 per cent 30 days and to a lesser extent 8 per cent 60 days or 90 days, and with season datings, such as May 1 and November 1, June 1 and December 1, or January 1 and July 1. The season dating,

it should be noted, however, does not lengthen the terms as much as may appear at first sight, for deliveries are not made immediately after the mill's selling season, but rather adjusted to the buyer's needs, and thus January sales may only be delivered in June and July sales in December. Anticipation is generally permitted at the rate of 6 per cent per annum. Many manufacturers, however, gave no dating, and sold upon straight terms of 7 per cent 4 months, while other houses sold on terms of 10 per cent 30 days, often granting e. o. m. terms. During the war there was considerable shortening of terms as a result of the existence of a seller's market, so that, after 1917, the dating was frequently eliminated and terms shortened in many cases to net 10 days or net 30 days. Since 1920, however, there has been a change in the situation, as a result of the lessened demand for goods, and a tendency to revert to the older terms.

Difference of opinion exists as to the relative length of terms on men's wear and women's wear goods. While many mills make no distinction in their terms on the two classes of goods, several authorities agree that women's wear terms have never been as short as terms on men's wear, although one states that they are gradually becoming the same. Many of the larger manufacturers still retain the regular terms of 7 per cent 4 months with season dating on women's wear, while several large houses give 10 per cent 30 days, with semi-annual dating. It is stated that the latter terms apply to the majority of carded woolens sold by the larger organizations for women's wear, while worsted fabrics are sold on terms of 7 per cent 10 days, 60 days extra, or 2 per cent 10 days, 60 days extra, in some cases with semi-annual dating. This distinction in terms is found only in the case of women's wear. Men's wear, in addition to being sold on the regular terms, with or without season dating, in many cases bears shorter terms, such as 10 per cent 10 days, net

30 days, net 30 days e. o. m., or infrequently 2 per cent 10 days, 60 days extra.

Certain mills making high-grade goods employ these shorter terms, and it has been suggested in explanation of their use that such mills were in a particularly favorable position to select and be certain of their customers, although the terms have been employed for medium and low-grade goods also. The difference between mills employing 30-day and those employing 4-month terms is perhaps to be ascribed rather to the size of the mill or output handled by the selling organization, and the corresponding number of accounts which must be sold to take the product. On the other hand, shorter terms in the case of smaller mills may be due in some cases also to lack of ability to finance business on the regular basis. It should be noted that for the large mills which continue to adhere to the regular terms, the shortening of terms during the war was reflected in the greater proportion of their accounts which paid on shorter time instead of taking the full 4 months.

Although the regular terms are 10 per cent 30 days, 8 per cent 60 or 90 days, and 7 per cent 4 months, it is stated that in ordinary times the grading of terms is not permitted, and only substantial buyers have insisted upon optional terms, these buyers invariably taking advantage of the shorter time in order to secure the discount. The proportion of accounts taking the higher discounts of course varies with the level of interest rates, anticipation being less frequent when interest rates are high. This was noticeable about 1919. Terms are also adjusted to accord with the way in which payments are coming in to the buyer from his trade. On the other hand, owing to the difference in the credit risk, as in the case of the other textiles, some buyers will only be sold upon terms of 70 days, others upon terms of 40 days, etc.

Blankets.[9]—Unlike the men's wear and dress goods branches of the industry, which are largely concentrated in certain of the New England and Middle Atlantic States, there are a large number of small blanket mills widely scattered throughout the country, catering to the local trade. Most woolen blankets are sold through commission houses or agents, although a certain number of mills throughout the country sell direct. The latter practice is stated to be more common among smaller mills making low and medium grades of wool and wool-mixed blankets, and among mills in western Pennsylvania, in the South, and in the Middle West, than among eastern mills. It is estimated that perhaps half of the output passes through the hands of jobbers.

Sales to the retail trade are generally made on terms of 2 per cent 10 days, 60 days extra. To the jobbing trade they are sold for delivery, usually in June, July and August, on terms of 2 per cent 10 days, October 1. In many cases sales direct to the retailer by the manufacturer also bear a dating. Occasionally 3 per cent 10 days is granted, but only for a special purpose. Prior to about 1917, the customary dating to jobbers was November 1, at which time it was changed to October 1. Collections during the period of great activity were extraordinarily good, but have been poor as business conditions have changed, and many accounts which had always previously paid promptly have been running somewhat behind.

Floor Coverings.[10]—Carpets and rugs are sold by manufacturers direct through their selling offices located in New York, or are sold through selling agents, one agent in several cases having the sale of 3 or 4 leading lines. It

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[9] Acknowledgment is due Mr. F. H. Cabot, President, F. H. Cabot and Co., Inc., New York, for reading this material.

[10] Acknowledgment is due Mr. Thos. A. Fernley, Secretary-Treasurer, National Wholesale Floor Covering Association, for reading this material.

is estimated that about two-thirds of the output is sold to wholesale distributors and one-third to department stores and other retailers. The policies of individual manufacturers, of course, differ. The business is seasonal, and seasons open about April 1 or May 1 and October 1 or November 1.

Prior to about 1916, terms were generally 4 per cent 10 days, with March 1 and September 1 season datings, although in some cases dates as late as May 1 and October 1 were specified. Shipments during the season—that is, from about March 1 to May 1, and from September 1 to November 1—bore terms of 4 per cent 10 days. About that time there was a general movement to make terms more uniform and shorter, and most manufacturers now have terms of 4 per cent 10 days, 60 days extra. Net terms in certain cases are 90 days or 4 months from date of shipment. Some manufacturers, however, continue to give a season dating, while others may vary the terms somewhat, as, for example, 4 per cent 30 days. On goods specially made to order, a considerable amount of which are sold through interior decorators, different terms are employed, 4 per cent 10 days, net 60 days, for example, being given. Collections in the industry are reported prompt wholesalers at least usually discounting their bills, although on special orders many bills run to maturity instead. The terms on carpets and rugs, as well as the usual methods of distribution, apply in general in the case of linoleum also.

Hosiery.[11]—The two principal classes of hosiery are seamless and full-fashioned hosiery, which is knitted on a flat frame in the correct dimensions and then knitted together. A negligible quantity of cut-up hosiery is also produced, which is knitted in large areas, cut up and sewed

[11] Acknowledgment is due Mr. R. L. P. Reifsneider, of the National Association of Hosiery and Underwear Manufacturers, for reading this section.

together. It was estimated in 1915 that 90 per cent of the total output consisted of seamless hosiery.[12] There has been a change in the character of the material employed. Thirty-five years ago woolen and merino hosiery was in universal use, but has been superseded by cotton, which now forms the bulk of the output. The output of silk hosiery, however, is increasing greatly. Formerly hosiery manufacturers sold entirely to jobbing houses, and at present the greater part of the output is still distributed through that channel. Data obtained in 1915 in the above study from 73 mills showed that a little more than 50 per cent of the total output was sold to jobbers, slightly less than 5 per cent through commission houses, and slightly less than 45 per cent to retailers, the quantity manufactured for export being negligible. Estimates received from various authorities, however, place the percentage of direct sales to retailers considerably lower, in general at from 20 to 35 per cent of the output. The present tendency toward sales direct to the retailer is found mostly among manufacturers of silk hosiery, most of whom, however, also produce other types, notably mercerized and fine-gauge cotton goods. This tendency is also found particularly in the West, where the greater part of the business is stated to be so done. In the East and South, however, manufacturers still depend principally upon the jobber or commission house as a means of distribution.

It is stated that 15 to 20 years ago many manufacturers sold upon what was termed a regular basis, namely 6 per cent 10 days, 60 days extra. At present, however, there appears to be little standardization in terms of sale in the industry, although the National Association of Hosiery and Underwear Manufacturers "has consistently advocated selling terms of 30 days net." Each manufacturer in large

[12] United States Bureau of Foreign and Domestic Commerce, Miscellaneous Series No. 31.

measure has his own terms, which he applies alike to his entire product, in general making no distinction between the various kinds of hosiery.

At the one extreme, a few manufacturers adhere to terms of net 10 days. Some quote terms of net 30 days, which it is said were established several years ago by a considerable number of manufacturers of silk hosiery, who were aided in enforcing these terms by the scarcity of such goods, as against low-end hosiery, in which a surplus existed in 1919. Some manufacturers quote 2 per cent 10 days, 30 days extra, which terms, it has been stated, have tended to be generally changed by the cotton hosiery manufacturers employing them to net 30 days. A comparatively small number of manufacturers quote 2 per cent 10 days, 60 days extra. The jobbers desire such terms, and the southern jobbers in addition recently requested a dating of April 1 for spring goods and October 1 for fall goods. Jobbers in certain cases have received season datings, but they have not generally been given to retailers. The latter, however, have been granted e. o. m. terms in some cases. Pacific Coast and southern purchasers have often received 30 days additional time. In highly competitive markets such as New York City, Chicago, and Cleveland, this added time may likewise be granted. The trade acceptance is stated to be little used in the industry.

Knit Underwear.[13]—The two principal classes of underwear are full fashioned, which is rather costly and is used mostly for infant's wear, and seamless, of which the bulk of the output consists. Cotton is the principal material, although knit underwear is also made of wool, merino, and silk. The output of cloth underwear is stated to be increasing more rapidly than the output of knit underwear.

It was estimated, in 1915, that 55 per cent of the total

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[13] Acknowledgment is due Mr. Roy A. Cheney, Secretary, Knit Goods Manufacturers of America, for reading this section.

output is sold by manufacturers to jobbers, 15 per cent through commission houses, 6 per cent through commission agents, and 23 per cent to retailers, the quantity manufactured for export being negligible. Statements received from various authorities, however, lead to the belief that the percentage sold to jobbers is now perhaps considerably higher.

Several years ago terms of sale were largely 7 per cent 10 days and 6 per cent 10 days, with season datings of May 1 and November 1 for shipments from about February and July on, respectively. Sales in season carried 60 days extra. At present, however, little uniformity exists. The season dating has in large part been eliminated, and, as in the case of hosiery, the high discounts have given way to smaller ones or to net terms. Distinction is generally made between terms to retailers and terms to jobbers. The former usually receive cash discounts, whereas in the case of the latter, terms are frequently net, while in some cases a higher cash discount is given the retailer. The explanation is perhaps found in the statement that collections from retailers are not as prompt. Terms to jobbers are generally also much shorter than to retailers. A further distinction is made at times between heavy and light weight garments.

Present terms are net in some cases, calling for net 30 or 60 days or net 10 days, 60 days extra, at times with season dating. Discounts in general are small and are 1 or 2 per cent with net terms of 30 or 60 days. In some cases these discounts are given with 30 or 60 days extra, making the bill subject to discount if paid in 40 or 70 days respectively.

Laces and Embroideries.[14]—Aside from their sales to garment manufacturers, importers and manufacturers of lace and embroidery sell both to jobbers and to retailers.

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[14] Acknowledgment is due Mr. David E. Golieb, Credit Manager, Einstein-Wolff Co., New York, for reading this section.

Many houses sell only to manufacturers and retailers, and it is stated that the houses which also sell the jobber are generally better equipped to sell to the jobber and manufacturer of low-end garments. The jobbers import direct to a considerable extent, and the number of houses doing purely a jobbing business is small. The heaviest shipments to jobbers are in November and December, purchases being made in advance at a desired dating. Retailers' orders are spread more evenly over the year.

Up to 6 or 7 years ago there were a variety of terms. Stock business generally bore the regular terms of 7 per cent 10 days, 60 days extra, while goods to be manufactured or imported articles carried an extra dating. September to December deliveries, for example, had a due date of April 1 to June 1. At that time a resolution was passed by the Lace and Embroidery Association fixing a maximum dating of 4 months on imported and manufactured articles. These terms were not, however, lived up to, and in consequence the resolution was rescinded. With the advent of the war, a resolution was passed fixing the maximum dating at 70 days, and eliminating e. o. m. terms. This was in force only 6 or 7 months, as many houses did not subscribe, and the prohibition of e. o. m. terms was not observed.

At the present time many importers and manufacturers employ the regular terms of 7 per cent 10 days, 60 days extra. Anticipation at the rate of 6 per cent per annum is permitted (on the net amount), while 8 per cent (on the gross amount) is given for payment within 10 days. E. o. m. terms are given at times, while on shipments for the opening of the season a dating of 30 days or more is still found in rare cases—a heritage from the past. Certain houses on the Pacific Coast receive terms of 8 per cent on receipt of goods, but this is rare. Terms of net 30 days prevail for manufacture on the material of the customer.

During the last few years many lace and embroidery

houses have added white goods, although the total amount distributed through them is small in comparison with that handled through the regular channels. These goods bear terms of 2 per cent 10 days, net 60 days, or 2 per cent 10 days, 60 days extra. Certain houses allow a season dating of April 1. Some houses eliminated the discount several years ago, making the terms net 60 days, with anticipation at the rate of 6 per cent per annum. Some of these goods formerly bore terms of 7 per cent 10 days.

Terms are now generally well observed, although there is the usual small percentage of accounts which are slow pay. Only a negligible percentage of accounts require other than the usual routine attention for collection. Collections during the last few years have shown considerable improvement.

The terms of the smaller domestic embroidery houses vary greatly, and the matter is largely a price problem. They are, however, generally short, as such houses have little cash, and 8 per cent 10 days or 10 per cent 10 days may be given.

Wholesale Dry Goods.[15]—Dry goods jobbing is exceedingly complex. Many different classes of goods are handled, and the business of individual jobbers differs somewhat. Houses are of several types. (1) There are the large nation-wide general dry goods jobbers, located in the larger markets, in particular in Chicago and St. Louis and in the Mississippi Valley, who cater to buyers throughout the entire country. Larger stocks are carried, with greater range in quality and selection, and the volume of business done enables them to conduct practically a specialty business in each department. A large mill shipment business is also done, shipments being made direct from mill to

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[15] Acknowledgment is due Mr. Thos. A. Fernley, Secretary-Treasurer, National Wholesale Dry Goods Association, for reading this section.

retailer. (2) There are local general jobbers, located in important railroad centers, and covering a more limited territory. They are found in the upper Mississippi Valley, the central South, and on the Pacific Coast, though rarely in the territory accessible to New York. (3) There are smaller local jobbers, covering a more restricted territory, and found to a considerable extent in the South. The differences between the three types are largely in the extent of territory covered. In (2) and (3), however, certain differences may also appear according to the territory in which the house is located, and a corresponding difference in the character of goods handled. Thus heavier goods, such as blankets, flanels, and woolen underwear, play a larger rôle in the North and Northwest, and these items carry a later dating than do the regular items. Likewise, it has been suggested that eastern houses have a larger percentage of their business in finer and more expensive goods in which the style factor plays a larger part than is the case in other sections of the country. Most eastern jobbers cover limited territories, and their customers are in close proximity to the market, so that most of their buying is done in the market and from open stock, whereas in the West sales for future delivery play a larger rôle.

The various items which are handled may be classified as follows: Piece goods, notions, white goods and linens, ladies' ready to wear, men's furnishings, hosiery and underwear, and floor coverings. Leading houses will have departments organized along these or other general lines, although the plan of departmentalization may differ greatly from house to house. For the present purpose, another classification which should be noted is that into staple and fancy items, cotton piece goods, for example, being of both descriptions. It may be remarked, however, that the volume of piece goods handled has decreased greatly over a period of years.

As in other leading jobbing lines, great interest has been displayed in the terms upon which merchandise is purchased, and both of the leading associations have considered the matter, though from somewhat different points of view. The National Wholesale Dry Goods Association has considered primarily the adequacy of the cash discount or cash premium allowed on separate articles. Its several divisions, in particular the Jobbers Association of Notion Buyers, have regularly communicated in the past with manufacturers whose discounts, both cash and trade, were unsatisfactory, or who announced a decrease in or elimination of the same. The Southern Wholesale Dry Goods Association has considered rather the question of a uniform set of terms to apply to all purchases. It has favored "a minimum cash discount of 2 per cent, with minimum dating of 60 days on all commodities." After the opening of the war period the problem assumed new importance as a result of the curtailment of terms and decrease of discounts by houses selling the jobber. Thus, it is stated that 10-day terms were frequently quoted or, where 60 days was still given, such a high rate of anticipation was attached as practically to force payment within 10 days. Coupled with this was the demand that the wholesaler take goods far in advance of the season for immediate payment. While this was due in part to the efforts of purchasers to obtain advance deliveries for fear of later shortage, the effect was to force wholesalers in many cases to finance several seasons' goods at the same time, thus financing two-thirds their business within two months. The situation was aggravated by the billing of goods by mills prior to delivery to the transportation company, in the event of embargoes or refusal of the carrier to receive the goods. The wholesaler himself found it necessary to continue to carry the retailer, and his regular terms on the whole showed relatively little change. "Summed up briefly," then, it was stated in 1920 that

"the wholesale dry goods house is to-day bearing both the burdens of the manufacturer and of the retailer."

The Southern Wholesale Dry Goods Association alone has taken formal action in adopting a set of maximum terms upon which it is recommended that goods be sold. After discussion at each of its previous conventions, in 1915 terms were adopted at Nashville of 2 per cent 10 days, net 30 days, with dating of October 1 and April 1 for shipments after June 1 and January 1, respectively. Intermediate shipments carried 60 days extra, net 90 days. In 1916 and 1917, these terms were reaffirmed, and in the latter year an interpretation was added, stating that June to July and January to February shipments carried the season datings, while shipments during August to December and during March to June carried the terms for intermediate shipments. At these conventions the members practically universally expressed satisfaction with the terms, and in a considerable number of cases favored the adoption of even shorter terms. It has been stated that more than 90 per cent of the membership were making terms less than the maximum outlined in the Nashville resolution.

The feeling in favor of shorter terms resulted in a revision in 1918 at the New Orleans convention. The 10 days on season shipments were omitted, making terms on season bills 2 per cent October 1 and April 1, and due net November 1 and May 1. Intermediate shipments carried terms of 2 per cent 10 days, net 60 days but exception was made of department stores, which were to be granted 60 days extra on such shipments. The latter concession, which was intended to be used merely where competition forced the naming of such terms, seemed, however, to have been "misunderstood, misinterpreted, and generally has caused confusion and dissatisfaction," to quote the report of the committee on terms at the 1919 convention. Accordingly the committee, while recommending the same season terms,

favored 2 per cent 60 days on intermediate shipments, but strongly recommended that bale goods and all intermediate shipments of other goods as far as possible be billed on terms of 2 per cent 10 days, net 60 days. The longer terms on intermediate shipments were specified in view of the fact that certain of the members had previously employed them, and they also were felt to be necessary to enable those coming in contact with the larger markets to meet these terms. An unsuccessful effort was made by certain members so situated, to reinstate the 10 days which the New Orleans terms had withdrawn. It is understood that there has been no subsequent change in the formal terms.

The several territorial divisions of the association have also interested themselves in the subject and have passed resolutions indorsing the recommended terms, as well as made recommendations to the association's committee on terms. In 1919, a large majority of eastern Tennessee houses were reported to have terms of 2 per cent 30 days, net 60 days, and on sales to department stores 2 per cent 60 days, net 90 days. West Virginia houses, which had first adopted terms of 30 days extra, 2 per cent 10 days, net 60 days, in consequence of subsequent adoption of 2 per cent 10 days, 60 days extra, net 90 days, by outside jobbers, recommended the adoption of such terms. Terms have also been adopted locally in certain cases, Cincinnati houses, through their association in 1918, adopting terms similar to those of the Southern Wholesale Dry Goods Association.

The matter of terms of sale has been discussed at many of the conventions of the National Wholesale Dry Goods Association. Complaint has been made at various times of the tendency of purchasers to deduct discounts when running somewhat beyond the discount period, as well as to endeavor to deduct discounts and add interest instead when taking longer time, such as, for example, with terms

of four months or with note settlements. In 1913, it was suggested by several members that formal action be taken, but nothing was done. In 1914, the necessity of curtailing season datings in order to afford an increased margin of profit was emphasized. The old datings were largely continued by jobbers, although they had been eliminated by manufacturers. Jobbers' cash discounts were stated not to differ much from manufacturers' although some jobbers had eliminated the old regular terms and employed net terms instead. With the pronounced shortening of terms by manufacturers during the war, increased stress was placed upon the necessity of a corresponding shortening in jobbers' terms. Additional emphasis was lent by the steadily rising cost of doing business. The adjustment of terms on each line exactly to correspond with manufacturers' is not, however, possible in all cases, inasmuch as jobbers' terms are in many cases the same for all kinds of a general type of goods. At the 1918 meeting various houses cited instances of shortening of terms, such as moving the season dating forward one month from May 1 and November 1 to April and October 1, elimination of 60 days extra, and of 10 days time on season terms, and use of net 10 days in place of 2 per cent 10 days.

General agreement, however, existed as to the undesirability of concerted action, and this was reiterated at the meeting held in July, 1918, the "consensus of opinion being that a nation-wide uniform set of terms would not be possible for all sellers of dry goods, underwear, hosiery, notions, and kindred goods." At the meeting earlier in the year, the secretary had been instructed to collect the terms of members, which was done. While great variety appeared, the compilation showed a decrease in the time given and a tendency to closer terms. It was stated to be "a proven fact that the 'terms situation' was in better shape than at any previous period," and that "the im-

provement might reasonably be expected to continue." While there was an effort at further shortening, terms at present, however, are stated to be substantially on the same basis as indicated in the survey.

We may proceed to examine in greater detail the terms of the 135 houses which are given in this survey. The general terms are 2 per cent 10 days, 60 days extra, for many years recognized as the regular dry goods terms. While in many cases no terms beyond the 70-day period are formally quoted, and bills are due net after 70 days, in other cases net 90 days or net 4 months is frequently specified, though there has been a tendency toward the first-named net terms. Anticipation at the rate of 6 per cent per annum is generally permitted. This gives a cash discount of 3 per cent 10 days, which, in fact, is quoted by some houses, as well as in some cases, 1 per cent 10 days, net 30 days. Season datings most frequently specified are April 1 and October 1, in general for shipments made prior to 2 months before the dating, thus being February 1 and August 1 for the datings given, after which time the regular 60 days' extra terms are given. Certain houses, however, employ other season datings, in particular May 1 and November 1, for the general line, while several instances of earlier datings, such as February 1 and March 1 and August 1 and September 1, were also noted. Orders bearing the season dating, in general, carry no further dating, although in certain cases 60 days extra was also given, mainly by houses having the earlier season datings and practically nullifying the same.

In all sections houses are found which do not employ the regular terms or which have no season datings. In part this is the result of a shortening of terms in recent years, while in part it is a reflection of the character of business done. Some houses give merely 30 instead of 60 days extra on new accounts, while others eliminate the

10 days of grace on season datings. Jobbers handling primarily special lines such as hosiery and underwear, or men's furnishings, follow the manufacturers' terms on these items in some cases. Certain markets, such as St. Louis and Baltimore, have been known in the past for their liberality in the matter of terms, but the former advanced the customary dating from May 1 and November 1 to April 1 and October 1 during the last few years. Jobbers located at smaller centers in various sections in a number of cases instance the competition of a larger neighboring market as forcing the granting of 60 days extra, a November 1 season dating, etc.

The extent to which houses classify their business and extend different terms on each class would appear to vary roughly to some extent with the size of the market. Houses located in the smaller centers in many cases have but one set of terms to apply to their entire business. In the larger markets, in particular those of the Middle West, distinction in general is made between spring goods and fall goods, factory or manufactured goods produced by the house itself, and mill shipments, while staples in certain cases are also distinguished. Between these two extremes there is wide variety, many houses having a lesser number of classes, and in certain sections, such as in the East, the entire range of types is frequently not found. Classification presents a twofold aspect, certain goods having both different discounts and net terms, while with others the difference is merely in the season dating. Mill shipments in general bear terms of net 30 days, although some houses give net 60 days or net 60 days on certain items only, such as towels and white goods, while giving net 30 days on other items. Terms on overalls, work shirts, yarns, spool cotton and thread differ somewhat, but are usually 1 or 2 per cent 10 days, net 30 or 60 days, without season dating.

In part, classification results from an effort to shorten terms or reduce discounts to correspond to manufacturers' changes in terms with respect to certain items. Thus, certain houses give no season dating on some items like prints, domestics, percales, ginghams, and sheetings, or in some cases only on specified brands. Some houses, in addition, have eliminated the cash discount, and bill these and similar items on terms of net 60 days, while others have advanced the season dating one month, from April 1 and October 1 to March 1 and September 1. This tendency is also seen in connection with certain items such as hosiery and knit underwear, which, while frequently continuing to bear a season dating, in the case of many other houses are sold without such dating, or bear merely terms such as net 10 days or 1 per cent 10 days, 30 days or 60 days extra, similar discounts being applied also by certain houses in connection with the season dating. Certain items, however, frequently carry the later season datings of May 1 and November 1. Among these may be noted laces and embroideries, white goods, cloaks, and furs (which in some cases carry December 1 dating), blankets, underwear (when a dating is given), sweater coats, and fancy knit goods. These items are of a twofold character, being either heavier goods, which will be wanted for later fall use, or style items. Some eastern houses report a later shipment date in lieu of season datings, while some houses extend additional time on shipments to more distant territories.

Collections naturally vary with the different seasons of the year, payments being concentrated largely in the spring and fall. As fall sales are heavier than spring sales, they are heavier in the fall, this being noted alike for each of the various parts of the country. In certain agricultural sections this will be accentuated by the fact that accounts are carried to some extent until the fall. The movement of merchandise with the majority of wholesale dry goods

houses is about 40 per cent in the first 6 months of the year and 60 per cent in the last 6 months.

The following figures show the proportion of their total annual receipts received by 3 houses during each month of the year. It should be noted, however, that the data are not strictly comparable, inasmuch as the terms of the houses differ somewhat:

	Jan.	Feb.	Mar.	Apr.	May	June
New England*	7.0	5.6	6.5	7.4	8.3	8.3
Northwest	5.6	5.0	5.4	7.0	7.0	5.7
North Pacific Coast	6.0	6.1	5.1	6.1	6.6	6.6

	July	Aug.	Sept.	Oct.	Nov.	Dec.
New England*	7.7	7.5	8.4	9.5	11.5	12.3
Northwest	6.6	7.0	8.7	12.0	18.0	12.0
North Pacific Coast	7.8	7.9	10.8	13.8	11.8	11.5

* Another New England house also notes that payments drag from about Jan. 15 to Mar. 15 and from July 1 to Sept. 1.

A leading authority states that on an average about 50 per cent of the accounts of retailers with wholesalers are discounted, and about 20 per cent are anticipated at the usual anticipation rate of 6 per cent, dependent upon locality and trade conditions.

Interest has been displayed in the trade acceptance by both trade associations. The national association has sent out considerable descriptive literature, while the 1918 convention of the southern association adopted a resolution favoring it, and several members who were employing it reported themselves well pleased with it. At the 1919 convention, 20 members present at one of the meetings stated that they used acceptances. On the whole, however, as in other jobbing lines, the instrument is not used by the majority of houses.

Men's Wear Woolen and Worsted Jobbing.[16]—As is the case with goods for women's wear, woolens and worsteds for men's wear find their way into consumption via one of two channels—the jobber who sells to the small tailor and the ready-made clothing manufacturer. The latter industry developed earlier than did the women's ready-made industry, which consequently has drawn most of its forms and methods of operations from it, and a greater portion of men's clothing is factory made. In 1900, the output of men's clothing as a factory product was already valued at twice the custom product. The number of factory-made garments would be even greater, for the relatively higher priced garments are made by the tailor.

The jobbers of men's wear woolens and worsteds and tailors' trimmings are of two principal kinds. Due to the scarcity existing in the cloth markets during the war and the great number of resales, the class of traders existing alongside of the so-called "old-line" jobber assumed particular importance in this branch of the textile industry also. The principal markets in which trading occurs are New York, which is by far the largest, Boston, Philadelphia, and Chicago. With such concerns terms vary greatly, and the question is largely a price problem. A large percentage, however, sell on terms of net 30 days, although spot cash or net 10 days, net 60 days, and net 4 months are also given. Some houses of this description note a decrease in the length of terms during the past few years, such as from 4 months to 60 days and from 60 days to 30 days.

The old-line jobbers, through their association, in January, 1918, adopted a resolution effective March 1, 1918, in favor of terms of 7 per cent 10 days, 6 per cent 30 days, 5 per cent 60 days. Invoices were to be dated ahead about

[16] Acknowledgment is due Mr. Frank C. Kay, Secretary-Treasurer, National Woolens and Trimmings Association, for reading this section.

2 months, December deliveries thus bearing February 1 dating, with the exception that January-February deliveries bear April 1 and July-August deliveries bear October 1 dating. Bills are due net in 4 months after the dating, and are subject to an interest charge of 6 per cent per annum thereafter. The same rate of interest is allowed for anticipation. On goods sold at net prices, usual terms are net cash 10 and 30 days. Goods shipped to Pacific Coast territory may bear longer dating, April 1 on December shipments, October 1 on June shipments, and 30 days extra on shipments during the other months. Although the matter of terms had been frequently discussed, no action had been taken prior to 1918, and no uniform regular terms existed, although the terms which were adopted at that time, namely 7 per cent 10 days, 6 per cent 30 days, and 5 per cent 60 days, had been previously in general employed.

In addition, there are book houses who put up sample books of the fabrics which they have purchased from the mills. The tailor displays the book to his customer, who selects the style he desires, and the tailor then orders a suit length of the style from the book house. There is stated to be little difference in the relative strength of the book house and the regular jobber as a link in the distributive chain in the various sections of the country. Certain book houses combine jobbing with their regular business to a greater or lesser extent. The customer of the book house requires little credit, due to the fact that he shifts to it the burden of stocking the goods. In consequence, a large portion send cash with order or accept C. O. D. shipments, while some remit on receipt of goods or when sending the next order, and others receive 10 days, e. o. m. terms or 30 days. The same principle underlies the granting of time as in the case of proximo terms, namely to group invoices in case of frequent shipments, and thus also to avoid the annoyance incident to C. O. D. shipments. Orders for large

quantities of material bear 30 or 60 days, and only rarely are longer terms extended, such as 90 days in the case of orders for stock. For years a discount of 7 per cent has been granted, but this was abolished in certain cases in 1919.

CHAPTER XV

THE APPAREL AND LEATHER INDUSTRIES

The present chapter considers two groups of industries dealing with products destined for consumption rather than for industrial use. The first group includes ready-to-wear apparel of various kinds; the second group, tanning and boots and shoes. In both these groups of industries, the distinctive wholesaler plays relatively little part. Just as in the apparel lines as a whole the distributive chain runs from cloth manufacturer to garment manufacturer to retailer, so in the leather industry it runs from tanner to shoe manufacturer to retailer.

In both these groups of industries the same general factors chiefly govern terms as were noted at the opening of the previous chapter. In all the apparel lines, other than women's outer garments, season datings or extra datings which approximate them, are customary, while in the leather group they are usually found in the case of shoes. These datings are twofold—spring and fall, and run from approximately April 1 to July 1, and from October 1 to January 1. Tanners, however, do not grant them, and the same is true of tailors to the trade who make garments only as needed.

A second factor influencing terms in these industries is the large number of individuals who possess little capital. As a result terms lack uniformity in many cases and, especially in the apparel lines, have a tendency to vary according to market conditions at the moment, and according to the relative strength of buyer as compared with seller.

The discounts allowed in the various apparel lines are usually high, corresponding to those indicated in the previous chapter. Thus men's clothing carries terms of 7 per cent 10 days and millinery terms of 6 per cent 10 days, both with season dating. Another distinctive feature is the fact that graded discounts are often found. In the tanning industry discounts are lower, and range from 4 per cent on sole leather to 5 per cent on upper leather. Shoes on the other hand carry a discount of only 1 or 2 per cent on sales by wholesalers, although manufacturers' terms vary greatly.

Men's Clothing.[1]—Manufacturers of men's ready-to-wear clothing may be divided into several classes. The first distinction is between makers of trade-marked clothing and makers of clothing unidentified by either trade-mark or label. The former feel to a greater extent the desirability of greater concentration of work under their direct supervision, and the large inside factory is in fact on the increase everywhere but in New York. On the other hand, particularly in that center, the system of contracting is still largely employed. Between the two, the medium-sized house, it is felt in some quarters, is being driven out, due to the disadvantages inherent in its competition with both the small manufacturer on low grade and the large manufacturer on better grade garments. The capital of the typical cutting house is small as compared with its turnover and in consequence "the whole structure rests on the ready saleability of the cutter's product,"[2] the chain extending from retailer through cutter to manufacturer of cloth.

As is well known, the industry is distinctly seasonal, although during the past 4 years activities have continued

[1] Acknowledgment is due Mr. Philip Hamburger, Jr., Treasurer, Henry Sonneborn and Co., Inc., Baltimore, for reading this section.
[2] Cherington, *The Wool Industry*, (Chicago, 1916), p. 204.

to a greater extent over the entire 12 months. The duration of the spring season is from about November 15 to May 15, the cloth being bought during the previous June, July, and August, and the salesmen soliciting orders during September, October, and November. Deliveries are generally made after January 1, being heaviest in February and March, and re-orders follow in the spring. The cloth for the fall season is bought in December, January, and February, orders are received during March, April, and May, and deliveries are heaviest in August and September. Little, in particular in the higher-priced lines, is made for stock.

There is no standardization of terms in the industry. It has been the practice for the manufacturer to date shipments ahead, so as to permit the retailer to dispose of part of his purchases before being required to pay the manufacturer. Thus up to recent years terms were mostly 9 per cent for cash within 10 days, or 7 per cent 10 days, with December 1 dating on fall goods and June 1 dating on spring goods. In certain cases, however, the dating was November 1 or November 15 on fall goods and May 1 or May 15 on spring goods. Some houses have distinguished further between different classes of goods, suits, for example, being dated November 1 and overcoats December 1, or May 1 being specified on spring goods and June 1 on distinctly summer goods. Late shipments, for example, after April 1 or April 10 on spring and October 1 or October 10 on fall goods, in many cases bore terms of 7 per cent 10 days, 60 days extra, or 7 per cent 60 days. Tradition in the industry sanctioned terms of 6 per cent 30 days, 5 per cent 60 days, and net 4 months. In some cases, however, 7 per cent 10 days, 5 per cent 30 days, and 4 per cent 60 days was given. Some manufacturers have considered accounts as due net at the close of 90 days. Other manufacturers, although permitting 30 days or longer settle-

ments with correspondingly reduced discounts, have given formal terms of only 7 per cent 10 days, and have thus been able to insist upon payment of accounts of financially involved customers at any time after the expiration of the initial 10-day period. Anticipation has been generally permitted at the rate of 6 per cent per annum, but most settlements are made under the regular discount or net basis.

During the last few years many manufacturers have shortened terms, although the larger number continue to employ the regular terms. Some have eliminated the dating entirely, while others have granted datings that would not be so far advanced in the season. Some manufacturers give no terms longer than 5 per cent 30 days, or 5 per cent 60 days without dating. There has also been a tendency away from the high discounts which were formerly almost universal. Some manufacturers, while retaining season dating terms, give only 8 per cent for immediate payment, others 7 per cent 10 days, and 5 per cent for payment on dating dates, such as June 1 and December 1, or specify that accounts, while bearing the customary 7 per cent discount at the dating period, are due net in 30 days thereafter. The principal controversy, however, concerns the use of so-called "net terms." By the phrase is meant merely terms where the discounts are small, and correspond to the cash discounts generally in vogue in other lines. An instance is afforded by the terms of 2 per cent 10 days, net 60 days, without season dating, now employed by certain manufacturers. Other houses employing these terms give datings, such as April 1. The use of such terms at times when making quantity sales to large dealers is also noted. A study made several years ago states that some high-grade clothing is sold on net 10-day terms,[3] and some manufacturers give terms of net 10 days

[3] Bureau of Foreign and Domestic Commerce, Miscellaneous Series No. 34.

with July 1 dating on summer clothing. Close-out sales are made either on a spot cash or net 10 or net 30-day basis. Several houses which had adopted shorter terms are reported to have gone back to the longer terms in 1919.

The subject of standardization of terms has been discussed for some time by committees of manufacturers and retailers. The latter prefer standardization in the regular or old way, and have objected strongly to the introduction of net terms, which are favored by some producers. Other producers, however, believe that the higher discount terms have tended to accelerate collections. In consequence, no definite arrangement has been consummated. The opinion has been expressed that the many changes just noted in terms in the industry during recent years do not represent any real standardization, but have been made from the point of view of the individual house.

Lack of rigid adherence to terms in the past was noted.[4] Retailers, it has been said, often bought on one basis and wished to settle on another. The liberal credit policy followed, due in some measure to keen competition, encouraged merchants who were inexperienced and possessed inadequate capital to engage in the retailing of clothing. They then required the manufacturer's aid in carrying the merchandise. On the other hand, because of the high discounts given, wrongful deduction of discounts was frequent. Thus some retailers expected to give notes bearing interest at 6 per cent per annum, while obtaining the full cash discount, and succeeded in obtaining such concessions from manufacturers. Up to 1921, however, collections improved greatly and failures among retailers have been few up to within comparatively recent months. The re-

[4] The material in this paragraph relative to conditions in the past has been taken from a paper on *Datings and Discounts*, read by Mr. Ira D. Kingsbury before the convention of the National Association of Clothiers, June, 1914. The paper is reproduced in the Bureau of Foreign and Domestic Commerce, Miscellaneous Series No. 34.

tailer did a large volume of business at high prices, while payments by him were stimulated through a desire to obtain his full allotment of merchandise.

Trousers are made either by regular clothing manufacturers, houses making also summer clothing, overcoats or work clothing, or by special trouser manufacturers. They carry either terms of 7 per cent 10 days, 6 per cent 30 days, and 5 per cent 60 days (stated to have been largely initiated by clothing manufacturers) or terms of net 60 days, with a discount of 2 per cent 10 days, or 1 per cent 10 days, 30 days extra in some cases. A spring dating of April 1 or May 1 and a fall dating of September 1, October 1, or November 1 are generally given for January to February and June to July or August shipments, respectively.

In recent years the tailor to the trade, who in a central factory makes clothes to measure, which are ordered through retailers or agents in the various sections of the country, has been an increasingly important factor in the industry. In addition to his regular business, he is often employed by large retailers to make up clothes after their own styling, just as is the regular manufacturer who does not feature his own name. Although found in all sections of the country, the tailor-to-the-trade branch is stated to be considerably larger in the Southwest than either the ready-made or merchant-tailoring branches. As is to be expected, it is relatively stronger in the smaller than in the larger centers.

Distinction in terms is made by the tailor to the trade according to the credit rating of the customer. Those with good rating in general receive net 30-day terms, monthly settlement, for example, by the 10th, being permitted in certain cases. Some houses provide 10-day terms for purchasers of lesser rating. A deposit, such as $5 per suit and $1 per pair of single trousers, when placing the order, and C. O. D. terms are generally required in the case of

those who do not have a rating sufficient to entitle them to credit on open account. While the larger houses do the majority of their business upon 30-day terms, certain houses are known in the trade as C. O. D. houses and deal almost entirely with unrated merchants. In certain cases cash in advance is required, or else a guaranty, the regular monthly settlement being permitted in the latter case. Some houses allow a cash discount, such as 2 per cent 10 days or 3 per cent cash in advance. Regular ready-made clothing manufacturers in certain cases sell also made-to-measure garments, terms being net 30 days or in some instances net cash.

Jobbing in men's ready-made clothing is very small. In the study above referred to, data obtained from 64 manufacturers showed that 98.21 per cent of the output was sold to retailers and only 1.29 per cent to jobbers. The latter are stated to be largely disappearing, except where they have goods made up for themselves to be sold under their own labels. The cheaper goods are mainly handled, the manufacturers of trade-marked clothing selling their product direct to the retailer, in general granting the latter exclusive agencies. Even in small-town and country trade, which is now their chief field of activity, their work is confined mainly to the sale of working clothes. A few jobbers also exist who dispose of slow lines for manufacturers on commission, or else purchase the same outright. Terms of jobbers are reported to vary greatly, and no definite statement can be made.

Women's Outer Garments.[5]—There are several distinct branches in the women's garment industry. Cloak and suit manufacturers generally do not make skirts, although there is a distinct tendency for them to do so. The same manufacturer at times makes both skirts or suits and

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[5] Acknowledgment is due Mr. J. B. Bernstein, City Editor, *Women's Wear*, for reading this section.

dresses, although the large majority of manufacturers confine their attention to either article. It is estimated that 95 per cent of ladies' waist manufacturers specialize in this product. There are thus the cloak and suit, skirt, dress, and waist branches, each of which has its distinct identity. In addition to the manufacturers, there are so-called "jobbers" or stock houses, who, however, practically create their own styles, furnish their own materials, and have their garments made up by sub-manufacturers and contractors. There is a pronounced trend towards stock houses in the cloak and suit trade, especially in New York, and the number of large manufacturing plants is decreasing. Contracting in the industry, while it figures largely, is less important than for men's wear, due to the greater number of small cutting concerns.

Jobbers are found in all the larger centers where the manufacturers are located. New York is the largest center in the cloak and suit industry, its output being estimated in the census of 1910 at approximately 70 per cent of the total output of the industry, and it produces finer goods than other centers. Cleveland is noted for the production of staple articles, and Philadelphia, Boston, and Chicago are also large centers. St. Louis is the second largest center in the skirt industry. It has many jobbers, but no stock houses, and also has relatively few small concerns, as is the case in New York and elsewhere. The principal dress centers include New York, Chicago, Philadelphia, St. Louis, Cleveland, Cincinnati, Boston, and Los Angeles.

The industry differs in some important particulars from the men's clothing industry. There are fewer trade-marked lines, and the agency and branch store are not employed. The larger New York stores are stated to seek the smaller manufacturers rather than the larger factories for the greater part of their stock, and have a large part

in the creation of their styles. The time between orders by the store and delivery by the cutter is very short, and cutters endeavor to keep goods in process of manufacture as small as possible, seldom getting far ahead of orders actually in hand.

Sales are made to department stores, specialty shops, and catalogue houses. Seasons differ somewhat. Cloak and suit orders in New York are placed from July 15 to October 15 and from January 15 to about 2 weeks before Easter. Shipments occur respectively in August, September and October, and February and March. The dullest months are December and June. In Cleveland, however, orders are stated to be taken further in advance of the season and deliveries made earlier. They begin about July 1 and January 1, and are heaviest from July 15 to September 15 and in February and March respectively. In the skirt industry heaviest sales are made in July and August and in January and February, heaviest deliveries being approximately one month later. These seasons must be further subdivided in view of the change in the separate skirt business from a staple character to the manufacture of novelties for sport wear, etc., which has made it necessary to carry a far larger stock. St. Louis has selling seasons running from June 15 to August 1 and from December 1 through January and in some years through the early days of February, heaviest deliveries being from August 1 to September 15 and in February respectively for fall and spring seasons. October, November, and December are the dull months in the skirt industry.

The dress industry, except when depression is pronounced, is a 12-month industry. Dresses can be manufactured in so many different weights to suit climatic conditions, that an all-year-round business results. Sales have become so large that for the last few seasons they have practically surpassed the sale of suits. Waists, however,

are seasonal to some extent, although the business is practically continuous. Selling for the fall season occurs in July and August and for spring in January and February. Heaviest deliveries are in August and September and in March, April, and May, respectively.

In New York City, the Garment Conference Council of Wholesalers and Retailers adopted a resolution in July, 1917, fixing maximum terms. This was later confirmed by the respective local associations of cloak and suit manufacturers, dress and waist manufacturers, and garment "jobbers," and concurred in by various associations of retailers. Terms had previously been very mixed, ranging from net up to discounts as high as 16 per cent, and the abuse prevailed of deduction of excess discounts by purchasers. In the dress and waist industries 10 per cent was called regular. The maximum terms adopted were 8 per cent 10 days, 7 per cent 30 days, 6 per cent 60 days, or so-called "net" terms, namely, 2 per cent 10 days, 1 per cent 30 days, net 60 days, the price being advanced correspondingly in the former case to compensate for the difference in discount. A strictly net basis is also permitted, as are e. o. m. 10-day terms. The endeavor was first made to offer merely a 2 per cent discount, but in consequence of the opposition of the retailers, who favor a high discount (as also in men's clothing), a compromise was effected after about a month whereby the two optional sets of terms were specified. It has been stated that the majority of cloak and suit and skirt manufacturers selling low-priced garments offer only the low discount and short dating. Few dress and waist houses in the association employ the "net" or strictly net terms. The length of time given will vary with the individual credit risk, and thus some buyers receive only 30 days, etc.

Cloak and suit manufacturers in the Cleveland market, however, have adopted no uniform terms, although "the

consensus of opinion has been to sell as nearly as possible on a net basis with 60 to 90 days dating," while at the same time offering a reasonable cash discount. Up to about 10 years ago the majority of houses sold on terms of from 7 to 10 per cent 10 days, with proportional discounts for payments within 60 days and 90 days. Terms now range from 2 per cent 10 days, net 30 days, to 5 per cent 10 days, 2 per cent 10 days, 60 days extra, but the majority give terms of 4 per cent 10 days or 2 per cent 10 days, 60 days extra. Many houses give season datings of March 1 and September 1, the dating on suits in some cases being one month earlier than on coats. The difference in practice between New York and Cleveland with respect to dating corresponds to the difference in practice noted above with respect to orders and deliveries, as there is no heavy purchasing in advance in New York, and goods are ordered for delivery when needed.

It is stated that skirt manufacturers in New York who are not members of the manufacturers' association in general adhere to the terms adopted by the garment conference, although they are reported often to give extra terms. Prevailing terms among St. Louis houses are fairly uniformly 3 per cent 10 days, 2 per cent 30 days, although special terms of 8 per cent 10 days to 10 per cent 10 days are allowed to firms of exceptional credit. Jobbers' terms in the main are 2 per cent 10 days, net 60 days. While some members of the trade claim that terms were formerly flat 3 per cent, but that about 6 years ago eastern competition forced concessions during several seasons, terms on the whole show no great changes during the past decade. The city trade, which amounts to but a small portion of the total, receives e. o. m. 10-day terms. In other markets it is reported that 10 per cent 10 days is largely given.

The standard maximum terms were not accepted by all New York City dress houses which belonged to the dress

and waist association. Prior to that time discounts ranged from 3 per cent up to as much as 16 per cent in some cases, while 10 per cent was called regular, as was noted above. Terms of houses in New York which are not members of the local association, as well as of houses located in other markets, vary greatly, and instances are found of net terms of 10, 30, and 40 days, while discounts range from 2 per cent to 8 per cent, e. o. m. terms or 30 days extra being given in some cases, as well as graded discounts (in general not over 2) such as 2 per cent 10 days, 1 per cent 30 days, net 60 days, or 3 per cent 10 days, 2 per cent 30 days, and special terms according to account. While many state that differences in terms are primarily due to the policy of the individual house, others distinguish between cheaper dresses, which are stated to be generally sold on shorter terms and lesser discounts, and medium and fine dresses. Thus one authority states the former are sold more largely on terms of net 10 days or 2 per cent 10 days, the latter on terms of 8 per cent 10 days, in some cases with e. o. m. terms or 30 days extra, and some extremely high-priced dresses on terms of 8 per cent 10 days extra or 7 per cent 10 days, 60 days extra. It is also agreed that the last few years in general have witnessed a shortening of terms and an abolition of the old extremely high discounts.

Waists are generally sold on terms of 8 per cent 10 days, in some cases with e. o. m. terms for the better grade and 2 per cent 10 days for the cheaper grade. It is stated that there is a general tendency to eliminate the 60-day clause. Collections on the whole are reported fairly prompt, payment on the average being made within 30 days from receipt of goods.

Fur Manufacturing.[6]—Raw and dressed furs are pur-

[6] Acknowledgment is due Mr. David C. Mills, Manager, Associated Fur Manufacturers, Inc., for reading this section.

chased by manufacturers from importers and dealers. At times manufacturers import their raw materials extensively, but the great bulk of the business is done through dealers. Both manufacturers and dealers have their raw furs dressed by "dressers and dyers," who constitute a separate branch of the industry. The business in the past has been a one-season business, but in recent years the fashion for summer furs has given the industry two seasons.

The matter of standardizing terms in the industry has been discussed for 10 years or more, but no formal action has ever been taken, and it is very generally conceded that the establishment of fixed rules in regard to the matter would be extremely difficult if not entirely impracticable.

The prevailing terms are 2 per cent 10 days or 7 per cent 10 days December 1, and 2 per cent 10 days January 1, on merchandise shipped after July 1, and 7 per cent 10 days July 1 on merchandise shipped prior to that date. Houses making fine goods usually give 7 per cent 10 days with both datings, while houses making cheap goods give 2 per cent 10 days December 1 and 7 per cent 10 days July 1. As there are more firms making cheap goods than fine, more goods with the December dating bear a 2 per cent than a 7 per cent discount. It has been suggested that the existence of a 7 per cent discount with the July 1 dating may be due to the fact that when the fur trade was a one-season business, special inducements were necessary to stimulate early orders, and these persisted even after the industry had assumed a two-season character. Manufacturers have been in a very difficult position since 1920, for dealers have continued the terms of 60 days and dressers and dyers the terms of 30 to 45 days instituted during the war, while manufacturers have been giving long datings to retailers.

Variations from these terms are, however, frequent. The

customer with a poor credit rating may have to take a lower discount, although this is not generally practiced. Exceptionally large discounts, such as 6, 8, 10, 12, and up to 16 per cent, are given in certain cases where desired by large retailers. Since 1920 much larger use of the trade acceptance by manufacturers is reported, although it is not by any means a general trade practice. Large use is made of it in the purchase of skins from importers or dealers.

Prior to 1912 over 50 per cent of the total product was shipped on memorandum or consignment. Serious abuses, however, resulted, and in that year a rule was adopted in the trade prohibiting the practice. Shipment of goods on approval, to remain not longer than 3 days in the customer's hands, is, however, permitted. It is estimated that not over 10 per cent of the product at present is shipped on memorandum, the greater part of which is on 3 days' approval.

Millinery.[7]—The organization of the millinery industry is complex. There are four principal branches. Of these the millinery jobbers are the chief, but the term is somewhat inaccurate, for many of them make their own hats, in large part import their specialties, and sell feathers, etc., direct to the retail trade. There are also hat manufacturers who make untrimmed and banded hats (which are made by machine and not by hand) and who sell almost exclusively to large jobbers, or in a very few cases to large retailers. The trimmed-hat houses manufacture trimmed hats and sell almost exclusively to retail dealers. In addition, there are specialty houses handling flowers, feathers, etc.

The hat manufacturers who sell to the jobbers have a seasonal business lasting from 3 to 4 1/2 months each season. The trimmed-hat manufacturers have a longer

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[7] Acknowledgment is due Mr. Frederick Bode, President, Millinery Chamber of Commerce of the United States, for reading this section.

season, owing to the scarcity of trimmed hats, their season lasting about 10 months each year. At the present time there is an active and well-defined movement on foot, sponsored by the Millinery Chamber of Commerce of the United States, looking toward the establishment of a 12-months' business for all branches of the millinery industry, with a resultant sale of seasonable millinery for each season of the year. It is stated that this movement is meeting with great success.

Terms of millinery jobbers are now fairly standardized. First among their organizations to adopt terms was the Millinery Jobbers' Association in 1900, which now covers the territory between Columbus and Denver, and St. Paul and Dallas. The terms, as revised in 1910, called for a maximum dating of April 15 and October 15 on goods shipped prior to February 15 and August 15, respectively. On goods shipped subsequent to these dates it was optional with members to allow 60 days dating, the discounts being 6 per cent 10 days, 5 per cent 30 days, and 4 per cent 60 days from value date. Anticipation at the rate of 6 per cent per annum was permitted.

Beginning with the spring season, 1918, datings were fixed at April 1 and October 1 for shipments prior to February 1 and August 1, respectively, while the clause relating to goods shipped subsequent to these dates remained unchanged. The terms of 4 per cent 60 days were, however, eliminated, and a clause instead substituted providing that no discount was to be allowed after 30 days.

One of the principal purposes in the formation of the National Millinery Association in the East, covering the Atlantic seaboard from Boston to Atlanta, in the winter of 1917, was to improve credit conditions, in particular in view of the high percentage of bad-debt losses. Prior to that time terms varied greatly, but most houses are stated

to have given terms of 7 per cent 10 days, 6 per cent 30 days, with May 1 and November 1 datings.

The datings and shipment dates fixed by the National Millinery Association were identical with those of the Millinery Jobbers' Association. Terms of 4 per cent 60 days were, however, permitted, no discount being allowed after 60 days, and terms of 7 per cent 10 days e. o. m. were permitted. At the same time, a similar change was made by houses on the Pacific Coast, the datings being changed from April 15 and October 15 to April 1 and October 1, and terms being specified as 6 per cent 10 days, with anticipation at the rate of 6 per cent per annum, or 7 per cent 10 days quoted. Sixty days extra has been given on other than early shipments. The problems which the wholesaler encounters have been described as follows: "We, of course, would like to shorten the terms so as to make our accounts more liquid, but, having to deal very largely with women who have comparatively little capital and who cannot pay their bills until the season is somewhat advanced and they actually do business, it is useless to attempt to make them pay their bills on shorter terms. We receive our money from them as soon as they begin to do business. If the season is early, we get our money early. When the season is late, it comes in late, no matter what the terms are."

The hat manufacturers have terms, which have been in effect for many years, of 6 per cent 10 days, 5 per cent 30 days, with datings at March 1 and September 1, and no datings thereafter, other than e. o. m. terms in some cases.

Trimmed-hat houses on July 1, 1917, through their association adopted terms of 6 per cent 10 days, 60 days extra, or 7 per cent 10 days. Terms previously in use were 7 per cent 10 days, 60 days extra, or 8 per cent 10 days, and many houses are still employing these terms. In 1919, several millinery jobbers reported the use of net

terms on trimmed hats, and a committee on discounts was accordingly appointed by the Millinery Jobbers' Association, but at the convention it was decided not to sell them net.

Among the specialty items, flowers and feathers are sold on terms of 7 per cent 10 days, with May 1 and November 1 dating, or 10 per cent 10 days e. o. m.

The trade acceptance is little used in the industry. It was adopted in June, 1919, by the Raw Ostrich Feather Importers' Association, for use where requested by the seller on all accounts not liquidated by the 10th of the month following purchase, terms being 10 per cent 10 days (e. o. m. in some cases), 9 per cent 30 days, 8 per cent 60 days, 7 1/2 per cent 90 days, 7 per cent 4 months. This association urged the use of trade acceptances in a letter, in 1919, to the Millinery Jobbers' Association, but the latter did not deem them practical for the millinery business at that time. Millinery braids were sold to millinery jobbers and hat manufacturers upon terms of 6 per cent 10 days, with datings of April 1 and October 1, but practice as to payments is said to have been very lax. On March 1, 1920, purchasers were advised that the season dating would be eliminated, and terms would be 8 per cent 10 days e. o. m. or 6 per cent 10 days e. o. m., 60 days extra, but the effect is stated to have been nullified through instructions given by customers to ship goods on January 1, making due dates and discounts 8 per cent February 10, or 6 per cent April 10.

Tanning.[8]—The tanning industry is very complex. There are two principal branches. Sole-leather manufacturers confine themselves largely to this branch, although they also produce belting and harness leather to some extent. There is a greater diversity in methods of tanning

[8] Acknowledgment is due Mr. E. A. Brand, Secretary, Tanners' Council, for reading this section.

upper leather and a tendency to specialize on making certain classes and grades.[9] The product is more varied, due to a wider range of uses, and there is a larger number of kinds of raw material. In addition to producing the various types of upper leather, a few tanners also include in their production bag and case, glove, fancy, and book leather. Most sole-leather tanners have a standard product for which there is a steady sale, consequently they produce considerable stock in advance of orders.

Leather is largely sold direct by the tanner to the manufacturer of leather products. Estimates place the proportion of leather sold direct at over 75 per cent of the total output, these figures including sales by tanners through associated houses and subsidiary companies. Although the majority of firms from whom data were received indicate no change in distributive methods during the past decade, some tanners report an increasing tendency to sell direct instead of through selling agents. The amount passing through the hands of leather dealers is very small. They are employed more largely in cleaning up job lots and in distributing to the smaller manufacturer. While considerable upper leather is sold on consignment, it is understood that a large quantity is sold outright. Commission merchants in recent years are stated to be to a considerable extent becoming direct owners of tanneries, and also hide importers and dealers. During the war period a considerable increase was noted in the number of small speculative jobbers. Among jobbers, the "finders" are an important class, cutting up the stock and selling the smaller finder, cobbler, or shoe-repair man who is limited in his means, and carrying the large number of articles, such as thread, machine parts, rubber heels, etc., which he re-

[9] Certain of the data contained in this article have been taken from Onthank, *The Tanning Industry* (Detroit, 1917).

quires.[10] Leather belting is sold almost entirely direct by tanners to the manufacturers.

The tanning industry has no marked seasonal aspect. One tanner states that purchasing depends largely upon market conditions, business being unusually good when prices are firm and advancing, while less buying occurs when prices are weak and easier. On the whole, however, business of the second half year is heavier than the first. Although most tanners who furnished data report no change in this regard during the past decade, some state that seasonal fluctuations are now less pronounced. One tanner states that since terms on sole leather were changed about 10 years ago, fixed buying periods have been largely obliterated. Broadly speaking, there are, of course, two seasons, spring and fall, with a short dull period of several weeks after each season. It has been stated that deliveries in October in general are heaviest, due to the fact that shoe manufacturers are stocking up for their next run, as well as to re-orders for midwinter trade, while activity is lowest about April or later. This applies more largely to leather used by the shoe industry, which it has been estimated constitutes about 70 to 80 per cent of the total output.[11] The demand for belting leather is not seasonal, but varies according to industrial requirements. When business is normal there is a steady trade all the year around in fancy leather. Purchases are made in the late winter and early spring for Easter business, and in the late summer and fall for Christmas business, with subsequent fill-in orders, and there is considerable buying for advertising purposes.

There are many variations in terms of sale in the indus-

[10] It is estimated that from 30 to 35 per cent of all sole leather goes from manufacturers to sole cutters and the shoe-repair trade.

[11] Data obtained by the Federal Trade Commission for the year 1918 give the output of shoe leather as 59 per cent of the total when measured in square feet, and 74 per cent when measured in pounds.

try as a whole, but in each branch certain terms are recognized as regular. Standard terms for sole leather are 4 per cent 10 days, 3 per cent 30 days, 2 per cent 60 days, net 90 days. A considerable number of tanners, however, do not quote the 90-day terms, while some also omit the 60-day terms. Twenty days extra is largely given, or payments permitted by a given date of the following month, such as the 10th or 15th, for the previous month's shipments. It has been stated that the terms of 3 per cent 30 days are practically ignored. Certain tanners give no 20 days extra to purchasers taking 60 or 90 days. Some tanners make shipments direct from the tannery instead of from warehouses in the larger centers, and in this case terms are often made cash discount for payment on arrival.

Terms were changed some years ago, the general consensus of opinion placing the time at about 10 to 12 years. Prior terms were 5 per cent 10 days, 4 per cent 60 days, "with almost any dating a shrewd buyer would feel inclined to exact under abnormal market conditions," and the change occurred as a result of the strain upon the tanner's resources. At first no 20 days extra was given, but this was shortly granted. It is stated by several authorities that dating is occasionally permitted at present, as for example, to jobbers in dull times. One tanner states that more recently there has been considered the question of reducing the discount from 4 per cent to 2 per cent, which was also attempted at the time the change in terms was carried out.

The regular terms apply also on tanners' sales of cut soles, which are produced by several leading tanners (as well as by specialized manufacturers), and on rough belting leather. Finished belting leather, however, bears terms of 5 per cent 10 days, with 4 per cent 60 days under special arrangement to cover long time in transit. Cut stock for shoe-repairing purposes bears terms of 1 per cent

10 days, in some cases with 20 days extra, and in some cases with net terms of 30 or 60 days. A leading tanner engaged in the sale of cut stock to finders makes terms of 1 per cent 10 days, net 30 days on blocks and strips, but quotes 4 per cent 10 days, 2 per cent 30 days, net 60 days on other classes of cut stock.

Regular terms on upper leather, including glazed kid and patent leather, are 5 per cent 10 days, 4 per cent 30 days. Considerable flexibility exists with reference to the discount period, and monthly settlement, ranging from the 1st to the 15th, is frequent, while in many cases 30 days is granted. Under special agreement, with the 4 per cent discount, 60 days is specified in a few cases instead of 30 days. It has been reported that "the New England trade usually demand and frequently obtain" such terms. One tanner states that "it is not so much a question of changing terms as making our customers live up to them," while another states that "terms of sale do not seem to be considered an obligation or contract to most of the shoe trade, and there is tremendous abuse in regard to the time taken in the payment of bills and the amount of discount deducted." It has been stated that about 12 years ago an unsuccessful effort was made by certain tanners to shorten terms and reduce discounts on upper leather, while another states that some years ago an effort was made to reduce the discount to 4 per cent. While these are the terms on finished leather, rough leather carries only a 1 per cent discount.

Usual terms on harness leather are 2 per cent 30 days, net 60 days and in some cases net 90 days, while russet collar leather carries terms of 2 per cent 10 days and in some cases 3 per cent 10 days, net 30 and 60 days.

During the last few years terms on glove leather have been shortened and discounts reduced or abolished. At the present time they range from net 10 days to net 30 days,

in the latter case often carrying a discount of 1 per cent or 2 per cent 10 days. It is stated that the great majority of fancy leather manufacturers employ terms of either 2 per cent 10 days, net 30 days, or 2 per cent 30 days. Exceptions noted are granting of the discount on accounts taking more than 30 days, the quoting of net 30-day terms and (by several smaller manufacturers) terms of 3 per cent 30 days. The latter were the general terms up to several years ago. Purchases by fancy leather goods manufacturers from tanners producing chiefly sole leather carry the regular sole-leather terms of 4 per cent 10 days, 3 per cent 30 days. Coat leather is sold on terms of net 30 days. Customary book-leather terms are 2 per cent 10 days, net 30 days, and for upholstery leather 2 per cent 10 days.

The trade acceptance is used only occasionally in the industry. The individual tanner when employing it at all uses it only on a very small proportion of his accounts. A leading tanner states that "accounts not handled on a discount basis are not considered satisfactory," and estimates that from 15 to 20 per cent of accounts run overdue, although not seriously, and in a large majority of cases interest is added for the overtime. While many tanners note no difference in collections from the various classes of purchasers, it has been stated that "shippers generally regard the shoe trade as more desirable than the jobbing trade." Collections from larger jobbers and finders, however, are stated to be as prompt as collections from shoe manufacturers, and several tanners consider them at times more so, but the smaller jobbers and finders are naturally less prompt. Small dealers are stated to obtain their supplies mostly through larger jobbers. In the words of one tanner, "in most cases a jobber is trying to do too much business on his given capital, that is, he is endeavoring to buy on extended terms, sell on a cash or 10-day basis, and turn his capital from his customer to his source of purchase

without great obligation on his part, thus causing occasional lack of ready funds, hence delayed payments." Several leading tanners state that some shoe manufacturers at times in the early part of their season when they are obliged to make and hold shoes for delivery dates are inclined to be slower in payments than ordinarily.

While most authorities state that jobbers' terms do not differ from tanners', some believe that dealers' terms are more liberal in the time given, although the standard discounts are the same. As jobbers sell to smaller accounts, which the tanners would not solicit, their collections are believed to be less prompt. Finders' customary terms are 2 per cent 10 days, net 30 days, although in certain districts longer net terms, such as 60 days, are given. Their collections are stated to have greatly improved during the last few years with the placing of the shoe-repairing industry on a more business-like basis.

Boots and Shoes.[12]—It is estimated that approximately 60 per cent of the total output of shoes is distributed through jobbers, and, states one authority, the percentage would be even greater were jobbing houses owned by manufacturers included. Certain manufacturers also distribute goods from other factories in addition to their own. In St. Louis in particular, there has been an increasing tendency during the past decade for manufacturers to job also shoes produced by other manufacturers. Practice with respect to sales to jobbers varies between the different markets, and thus in Cincinnati manufacturers in general do not sell jobbers, while in Rochester, where women's and children's shoes are produced, the proportion is estimated at 40 per cent. The same manufacturer ordinarily does not sell both wholesaler and retailer. Heaviest sales by

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[12] Acknowledgment is due Mr. Louis M. Taylor, Secretary-Treasurer, National Shoe Wholesalers' Association of the United States, for reading this section.

manufacturers are in March and April and in September and October, heaviest production in December to March and June to September, and heaviest shipments in February to April and August to September.

Terms on which manufacturers sell vary considerably, instances reported ranging from net 10 days to discounts of 10 per cent, one manufacturer, for example, reporting 7 per cent for payment 25 days e. o. m. Distinction is made by certain manufacturers between different types of sales. One Cincinnati house thus has regular terms on goods to be made up of 2 per cent 10 days, net 30 days, to retailers, with 30 days extra on shipments over 1,000 miles; 5 per cent 10 days, net 30 days, to department stores, and 6 per cent 10 days, net 30 days, to jobbers; while net 30 days is quoted on goods sold from the floor or out of stock. On sales to jobbers the cash discount will be stressed, whereas on sales to retailers the norm is largely net terms of 30 days, as will be indicated below, although net 60 days is quoted by some manufacturers.[13] This is reflected in the difference in the percentage of wholesalers and retailers who take the cash discount, estimated for the Rochester market as 80 per cent and 50 per cent respectively. A substantial percentage of overdue accounts is shown, several houses stating that 20 to 25 per cent of retailers run beyond the net period. A shortening of terms is reported during the past decade and greater uniformity has been introduced. Very little use of the trade acceptance is reported by manufacturers.

Due to the fact noted above that shoe manufacturers in large part also engage in jobbing, purchasing other makes and maintaining stocks, little attention apparently has been paid to the terms upon which the wholesaler pur-

[13] Little differentiation is reported by manufacturers between terms on which they sell their own goods and those of other manufacturers which they job.

chases. This activity has been confined more largely to rubber and tennis footwear, in which a contract is signed with the manufacturers for the ensuing year. Canvas footwear and tennis shoes are billed out on a net due date of June 15, and fall shipments of rubber boots and shoes on November 1, bearing terms of 1 per cent 10 days net 30 days. It is now being suggested that the former dating be changed to June 1 for retailers and July 1 for wholesalers.

Prior to 1918, general terms of shoe wholesalers were largely net 60 days, with considerable variation in the cash discounts given. These ranged roughly from 1 per cent 10 days to 5 per cent 30 days, but averaged 2 per cent 10 days, in some cases with 1 per cent 30 days quoted in addition to the latter, for example, in New England largely. In the fall of that year, upon the suggestion of the Allied Council of the American Shoe and Leather Industries and Trades, an attempt was made to change terms to net 30 days, and a movement, which had considerable strength, developed for a discount of 1 per cent 10 days. The matter was discussed by both the National Association and the 4 constituent territorial associations, each of which has had for some years a committee dealing with the subject of terms, discounts, and overdue accounts, and there was general agreement as to the desirability of these terms. Local groups have also considered the matter, and on various occasions there have been resolutions passed recommending certain terms.

A survey made, in 1919, by the committee of the National Association, and embracing 159 houses, showed that in the New England, Middle Atlantic, and Middle Western sections there was general adherence to terms of 30 days, although in the South the reverse was true. Certain houses made terms of both 30 days and 60 days. Less uniformity was, however, noted on the question of discounts. While

in New England 1 per cent was customary, in the Middle Atlantic States 2 per cent was more frequent, due to the fact that Philadelphia and Baltimore houses, with few exceptions, were on a 2 per cent basis. In the South 2 per cent was almost universal, while in the Middle West the number of houses allowing 2 per cent was considerable, although somewhat less than those allowing 1 per cent. In the South some houses reported the employment of net terms only, while in the Middle West more houses employed such terms than granted a discount of 2 per cent, although the figure was somewhat less than those granting a discount of 1 per cent. As a result of its survey, the committee stated that "very gratifying progress has (apparently) been made in shortening terms and discounts." The movement continued, although exceptions to the terms of 1 per cent 10 days, net 30 days, were still found. With the exception of the South, almost all new accounts were already, in 1920, stated to be on a 1 per cent 10-day, net 30-day basis.

Turning to the several sections, since 1920 practically all up-state houses in New York are believed to be on the new basis, and some New York City houses, in fact, have quoted 2 per cent to New York City trade and 1 per cent up-state and in New England. In the West terms were considered, in 1918, at several group meetings, the change being initiated at St. Joseph, and finally accomplished at a Chicago meeting. Net terms were fixed at 30 days, with 15 days extra for shipments of 1,000 miles or over. At the November, 1918 meeting of the Western Association, data obtained showed that three-fourths the firms replying had adopted the 30-45-day terms, most frequent discounts being 1 per cent, 2 per cent and absolutely net. A resolution was passed favoring the elimination of the cash discount and making the terms net 30 or 45 days, with latest shipping dates on white goods or low shoes April 1, as a concession

to northwestern houses. While the Southern Association has considered the matter of terms since about 1918, the same success does not appear to have attended its efforts as has been the case with the other associations. It is generally agreed that the change in terms has been made with little difficulty, and that there has been no adverse effect upon business. There has also been the saving in the discount, in addition to more rapid inflow of funds, and corresponding reduction in bank borrowings. An aid thereto, of course, has been the merchandising situation in the industry. At the present time, there is some disposition to fall away from the 1 per cent 10-day discount.

Advance orders have always been taken, although it is stated from New England that the seasonal aspect of the industry has been less marked during the last few years, due to active consumption and more frequent purchasing. Orders are taken for shipment on a given date, with the seller retaining the privilege of prior shipment, in which case the goods are billed as of the date called for in the order in place of date of shipment, and carry the usual terms. Time of shipment varies somewhat, and likewise the "dating" granted. Spring shipments in general will be made from December on, January, February, and March being the heaviest months, and the most frequent datings are March 1 and April 1, although February 1 and May 1 may also be granted. Fall shipments in general will be made from May on, July, August, and September being the heaviest months, and the most frequent datings are September 1 and October 1, although August 1 and November 1 may also be granted. Certain houses have eliminated the season dating entirely.

Considerable interest has been manifested in the trade acceptance, and some educational work has been undertaken by the associations, but little use on the whole is made of the instrument. In 1918, of 62 middle western

houses, 16 were using it with satisfactory results, while 13 were desirous of employing it, but considerable lack of knowledge of its proper use was found, as well as lack of interest due to shortness of terms and fear of loss of business through non-universality of its use.

As noted above, the committees of the national and constituent associations deal with overdue accounts as well as terms and discounts. The practice of charging interest on overdue accounts is widespread in certain sections, being reported as general in New England. Particular interest has been manifested by the Western Association, only 9 out of 67 reports to it in 1918 showing no interest charged, while in 1919 the proportion had fallen to 3 out of 40.

CHAPTER XVI

THE LUMBER AND MISCELLANEOUS MANUFACTURING INDUSTRIES

The present chapter deals with a miscellaneous group of industries. The articles are of various kinds, and the factors governing terms differ accordingly. Two of them, that is, lumber and jewelry, especially show the influence of general competitive conditions. In both the actual terms in use lack uniformity, and payments tend to vary according to the needs of the particular buyer. In lumber there is marked variation according to the condition of the market, terms being on a satisfactory basis when the selling manufacturers and wholesalers control the situation, and weakening as a buyers' market develops. They are, however, relatively short, being about 2 per cent 5 days after arrival, net 60 or 90 days. On the other hand, the retail jeweler is engaged in a distinctly seasonal business and needs to be carried until he sells part of his merchandise. He, therefore, is granted regular terms of 6 per cent 4 months or season settlement.

The other industries considered have on the whole few distinguishing features. Paint and varnish and glass terms are largely either 1 per cent 10 days, net 30 days or 2 per cent 10 days, net 60 days. The quoted drug and paper terms, on the other hand, generally do not run beyond 30 days, being either 1 per cent or 2 per cent 10 days with net terms of 30 days, although in a considerable part of the paper business they are also 2 or 3 per cent 30 days. A conspicuous exception is wall paper, which is strictly

seasonal and carries a dating together with graded terms.

Lumber.[1]—An outstanding feature of the lumber industry for the present purpose is the complexity of its organization. It is estimated that there are over 40,000 manufacturers, ranging all the way from the small portable mill, which may operate on either virgin timber or second growth, to the large mill operating on extensive bodies of virgin timber. Similarly, there are a large number of wholesalers and retailers. As a result, wide variations in selling and financing methods have always been found, and changes occur from time to time as business conditions change. There is no conspicuous difference between the different kinds of wood, in spite of certain differences in demand and the varied problems of production, as all manufacturers and wholesalers come into competition with each other to a greater or lesser extent.[2]

Prior to 1921, the recommended terms were prepared by the individual associations, but in that year the American Lumber Congress adopted a resolution, which it reaffirmed in 1922, recommending certain terms to the manufacturers', wholesalers' and retailers' associations, as follows: "Freight, net cash. Balance of invoice subject to 2 per cent discount if paid within 5 days after arrival of car, or net if either closed within 5 days after arrival by note or trade acceptance due 90 days from date of invoice and bill of lading, or if running on open account for 60 days. In the last case, subject to sight draft 65 days after date of invoice." Competition is so keen to-day, however, that

[1] Acknowledgment is due Mr. W. W. Schupner, Secretary, National Wholesale Lumber Dealers' Association, and Mr. Wilson Compton, Secretary-Manager, National Lumber Manufacturers' Association, for reading this section.

[2] One authority believes, however, that, as the value of the average carload of hard wood is considerably in excess of that of a carload of soft wood, and as many of the consumers of hard woods are in business in a small way and with limited capital, in actual practice more liberal terms are extended on hard woods.

"manufacturers and wholesalers are finding it difficult to transact their business on the basis of terms which they think should prevail." On the other hand, in 1920 "mills did a great deal of business on a cash-with-order basis."

In discussing in greater detail the terms of the individual associations, it will be well to consider separately the manufacturer's situation and the wholesaler's situation.

Manufacture.—Manufacturers' terms have been substantially of three general classes. First are those calling for part cash with order and the balance on receipt of notice of shipment. Such terms are used by the very small operator without yards, who puts his product in transit as soon as cut. Second are terms embodied in special contracts drawn to cover a considerable period of time. This form is usually employed between large mills and wholesalers and manufacturers of products such as furniture, where these manufacturers receive their entire supply of raw material from the mills in question. These terms vary according to the individual case.

The terms recommended by certain of the larger manufacturers' associations, which have interested themselves in the subject during the past 10 years, provide the third class, but deviation from them has been frequent. The cash discount specified, in particular by eastern and southern associations,[3] has been 2 per cent 10 days or 15 days from date of invoice on the net amount of the invoice after deduction of freight,[4] in some cases if the remittance is mailed within that time.[5] While for many years 15 days

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[3] One association provided for discount for payment on receipt of invoice. Several other associations reported these discounts generally in use among their membership.

[4] A delivered price is generally quoted, and deduction of the freight by the purchaser permitted.

[5] With a relatively few producers the discount is 1½ per cent, and in only one section may it be said to be practiced in a territorial way, namely Buffalo and Tonawanda, and there it is largely confined to sales through New York State.

was the universal discount period, it is stated that the western producers found themselves handicapped by this arrangement, due to the fact that cars were in transit from 15 to 30 days, and as they got farther and farther east with their product and railroad congestion increased, delivery took 60 days or more, whereas in the South and East rail delivery was usually secured within the 15-day period. As a result, the discount period was not as strictly observed by the western shippers. The majority of the western associations, as well as one northern and one southern association,[6] have therefore had instead a clause permitting the cash discount for payment within 5 days after arrival of the car, in general as evidenced by the paid freight bill. Toward the close of 1917, three of the western and northern associations, in the belief, it is stated, that terms would ultimately be entirely on a net basis and that a 2 per cent discount was excessive, reduced the discount in their recommended terms to 1 per cent. Great difficulty, however, was experienced, and the former discount was restored after about a year. In several cases 1 per cent 30 days from date of invoice has also been specified, and in the case of one southern association, which had terms calling for 2 per cent within 5 days after arrival of car, the 1 per cent was given for payment within 30 days after arrival instead of invoice date.

Standard net terms have been 60 days from date of invoice, although in a few cases where no terms have been recommended it is reported that 30 days have been given instead. In certain cases provision has been made for a trade acceptance,[7] and several associations have specified that it be mailed within a certain number of days, such as

[6] One western association stated that 1 per cent 5 days after arrival was in general use among its membership.

[7] Another association also reported the use of the trade acceptance to cover the net period.

10 or 15, after the invoice date. One association permitted 90 days with a trade acceptance as against 60 days with a note settlement. Difficulty arises in case a buyer wishes to discount his bill, but has not as yet received the shipment. Largely in the West and South,[8] a clause has been included to govern terms in the event of non-arrival of the car within a certain period, either the discount period, where this is a specified number of days after date of the invoice, or where this period is 5 days after the arrival of the car, within 30 days or the net period of 60 days. In this event it has usually been provided that 90 per cent of the invoice, less the estimated freight (the actual figure for which, however, is given by many shippers) shall be paid, and the balance be due on arrival and inspection. In certain cases, principally in the West, a provision, however, has been inserted prohibiting the deduction of the discount when payment is not made within a specified number of days after the date of the invoice, in certain cases 30 days and in other cases 60 days.[9]

Wholesale.—A study published in 1918 stated that "there has been a marked tendency in recent years to increase the sales of lumber from the sawmill direct to the larger consumer, or retail yard."[10] Wholesalers, however, state more recently that the high prices since prevailing and the increased cost of doing business has resulted in mills seeking the wholesalers, and increased the proportion of business done through them. The practice varies with the different localities, 60 per cent of the output of southern pine, for example, being sold direct, chiefly

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[8] Another association also reported use of the clause by its membership.

[9] One association specifying 30 days stated that the arrangement had been provided "to allow sufficient time for the shipper to render invoices and tally sheets and for the consignee to receive, check and make remittances and take advantage of the discount."

[10] Dodd, *Lumbering* (Detroit, 1918), p. 13.

by large mills, while on the West Coast the figure is but 20 per cent. Considering the type of purchaser, a leading authority has given the following estimates of the proportions of business done by lumber manufacturers and wholesalers with retailers, planing mills, and manufacturing consumers. In this compilation, the planing mill percentage is separated from the general retail business, although it is very common for a retail lumber yard to operate a planing mill.

Section	Retail	Planing mill	Manufacturing consumers
	Per cent	*Per cent*	*Per cent*
New England..................	50	20	30
Middle Atlantic States.........	45	25	30
Southern Atlantic States.......	35	30	35
Central States................	60	10	30
Western States	40	30	30

Two leading middle western wholesalers, however, state that the trade of wholesalers with retailers is a relatively small part of the business in that section, although it is believed that in the East the reverse is the case, and one estimates that 60 to 70 per cent of wholesalers' sales in his territory are to manufacturing consumers.

Standard recommended terms were first adopted by the National Wholesale Lumber Dealers' Association in 1902. These terms provided for net cash payment of freight, the balance to be settled for by note at 60 days from date of invoice, or less 1 1/2 per cent if paid within 15 days from date of invoice or 1 per cent 30 days. No discount was to be allowed after 30 days, but in the event of non-receipt of car within the discount periods, prepayment was not held to

forfeit the right to make corrections. These terms were re-affirmed at subsequent conventions, although there had gradually come about widespread deviation from them. In 1917, the committee on terms of sale unsuccessfully recommended the recognition of existing conditions and instead the adoption of terms calling for a note at 90 days from date of invoice, with a discount of 2 per cent if paid within 10 days from date of arrival of car. It was stated that terms at that time were in many cases 2 per cent 30 days, net 90 days, from date of shipment, which were first instituted in the case of shipments to a distance in view of the time the shipment was in transit.

Several of the retailers' associations have interested themselves in terms, and adopted recommended terms on which their members purchase. While this has been most prominent in the metropolitan district, it is stated that such terms have been adopted among others in New England, New York State, New Jersey, Ohio, Pennsylvania, and Illinois. "The main point in contention," states one authority, "is that the retailer would like to buy at a certain time from arrival, whereas the wholesaler endeavors to insist (in order to definitely fix the date) on the time being based from date of shipment. The reason for this contention has been the great delay since the war in lumber coming through." The recommended terms of the New York (City) Lumber Trade Association call for 2 per cent 10 days from date of arrival or note due 3 months from date of arrival, and a considerable amount of lumber has been bought on these terms, while net 4 months from arrival has also been employed.

After a conference with representatives of other lumber trade organizations, standard recommended terms were prepared by the committee on terms of sale of the wholesalers' organization, and adopted at the 1920 convention. These terms called for net cash 60 days from date of in-

voice, or less 2 per cent if paid within 15 days from date of invoice, or 1 per cent if paid within 30 days. Settlement by note or trade acceptance was permitted at 90 days from date of invoice, same to be mailed within 10 days after arrival of car. In the event of non-arrival of the car within the discount period deduction of the discount was permitted for payment within the discount period of 80 per cent of the net amount of the invoice (estimated freight deducted), the balance to be paid within 10 days after arrival and unloading, but if not so paid the discount was to be credited only on the amount paid within the discount period. The provisions as to freight and non-forfeiture of the right to make corrections were again inserted, as well as the 30-day discount limit. Among variations from these terms, it should be noted that eastern lumber, manufactured in New England and the Canadian Provinces, for many years has been generally sold on special terms of 1 per cent 10 days from date of invoice, or net 30 days.

In the industry, while net terms in certain cases are on open account, they are more frequently covered by a note. Within the last few years, the committee on terms of sale of the National Wholesale Lumber Dealers' Association has advocated the use of the trade acceptance, and its standard terms were changed, in 1919, by providing for the use of either trade acceptance or note where net terms were employed. The committee stated, in its 1920 report, that according to the information which it had, the use of the instrument was growing rapidly. It was stated, however, that certain retailers in the larger cities who do not discount endeavor to force the use of the open account, and frequently run beyond the 90-day net period.

Office Furniture and Store Fixtures.—Office furniture is largely sold by the manufacturer direct to the retailer.[11]

[11] Acknowledgment is due Mr. J. Arthur Witworth, Manager, Associated Office Furniture Manufacturers, for reading this material.

Manufacturers of certain lines—particularly filing equipment—however, have chains of stores through which their product is retailed. Store fixtures are largely sold through agents, but are sold direct by some manufacturers.

The cash discount granted on office furniture usually ranges from 2 to 5 per cent for payment within 10 or 20 days, while carload lots carry a discount of from 3 to 5 per cent. A tightening up of terms and decrease in the maximum cash discount period is reported within the past 5 to 10 years. The percentage of accounts taking the cash discount appears higher than for home furniture, several firms reporting as high as 95 per cent.

Very few firms engaged in the manufacture of store fixtures at the present time give any cash discount on their product, and only a few firms building special lines of fixtures still give a cash discount of from 2 to 5 per cent.[12] The standard terms in the industry are net 30 days, and a very large proportion of the business is done on these standard terms. A small proportion of the business is done on the deferred-payment plan. In this case an advance payment of usually from 20 to 30 per cent is required, with a total payment of from 40 to 50 per cent before the goods are actually delivered. The total time given seldom, if ever, exceeds 12 months. A large proportion of the deferred-payment business does not carry over 8 months' time, and many firms give no more than 6 months.

The amount of deferred-payment business has been gradually decreasing for several years, sales made on the standard terms having increased correspondingly. Prior to 1913, a large proportion of the business was done on the deferred-payment plan, 2 or 3 years' time often being given, and cash discounts were also very common. The

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[12] Acknowledgment is due Mr. F. C. Luces, Secretary, National Commercial Fixture Manufacturers' Association, for reading this material.

practice of giving this long time, however, it is reported, has now been almost entirely discontinued, and the business is stated to be on by far the best basis as to terms that it ever has been.

Paint and Varnish.[18]—Both paints and varnishes in many cases are produced by the same manufacturers, while both are distributed largely through the same jobbers, and a close relation exists between their use. Varnish terms tend to conform to those on paint. Of the total output of paint, it is estimated that 60 per cent is sold by manufacturers direct to industrial consumers, such as manufacturing plants and railways, while 40 per cent is sold to wholesale and retail dealers and to painters direct. On the whole, there are very few exclusive paint jobbers, and glass or hardware is handled, many of these dealers being either hardware jobbers or wholesale druggists.

Terms generally prevailing with paint manufacturers for many years have been 2 per cent 10 days, net 60 days. At the close of 1918, a resolution was adopted by the national association favoring a change in the terms to dealers to 1 per cent 10 days, net 30 days, to be effective April 1, 1919. An effort was made by some of the larger houses to put these terms in force, but the attempt was abandoned, as the general consensus of opinion proved to be decidedly against the reduction. While hardware jobbers were decidedly against such a change, which would bring the paint terms "out of line" with those on which they purchased the remainder of their merchandise, the terms have been favored for several years by the wholesale druggists, whose standard purchasing and selling terms they are. In accordance with a recommendation made about a year previously, terms to manufacturers and other

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[18] Acknowledgment is due Mr. G. B. Heckel, Secretary-Treasurer, Paint Manufacturers' Association of the United States, for reading this section.

industrial consumers are generally 1 per cent 10 days, net 30 days, in particular by the larger houses. Railroads, however, receive net cash terms, at least from the larger manufacturers.

The varnish industry in the past has been noted for long terms and for the looseness with which even the prevailing terms were enforced. During the last 10 years, manufacturers' terms were generally reduced to 5 per cent 30 days, net 4 months. Within the last 6 or 7 years these terms have been further reduced to 2 per cent 10 days, net 60 days. These were the prevailing paint terms, and many paint manufacturers were adding varnish plants, while conversely many varnish manufacturers were commencing to manufacture paint. It is estimated that at present 75 or 80 per cent of the varnish sold to dealers carries these terms, while to manufacturing plants, railways, etc., the terms are shorter still. A general tendency to sell on net terms is reported, as well as to shorten terms and make terms and discounts more uniform. A considerable amount of varnish, however, is still sold on the old 4 months' terms, in particular, it is believed, to the carriage trade.

Both the paint and varnish manufacturers' associations approved the use of trade acceptances as far as possible, to be effective January 1, 1919, but the instrument thus far has been used only to a very limited extent.

Jobbers' terms, which have been in effect for many years, are 2 per cent 10 days, net 60 days, for varnish and mixed paints. White lead and linseed oil bear terms of 1 per cent 10 days, net 30 days, changed in the case of white lead since 1917, from 2 per cent 10 days, net 60 days, and turpentine bears net 30 days. Dry paints are generally sold on terms of 1 per cent 10 days, net 30 days.

Glass and Glassware.[14]—Manufacturers of glass products

[14] Acknowledgment is due Mr. J. R. Johnston, Jr., Vice-President, Johnston Brokerage Co., Pittsburgh; Mr. John Kunzler, Actuary,

sell largely to jobbers, who usually have an exclusive territory, and to consuming manufacturers in other industries who use glass products. In the case of bottles and jars, a large quantity is sold to manufacturers of various food products, and it is estimated that from 75 to 90 per cent of the output is sold to industrial consumers, the balance distributing itself between wholesalers and retailers. Plain prescription ware alone is sold to jobbers. Jobbers of plate and window glass sell to contractors and manufacturers of building-construction material as well as to retailers. Only a small amount of glassware is sold direct to the retailer, the nature of the product limiting such sales to cut glass, tableware, some light goods, and a few specialties. Increased capacity on the part of some manufacturers of glassware has reduced the operating period in certain lines to 6 and 7 months. It is stated that there has been a tendency to shift the responsibility for stocking the product to the manufacturer.[15]

Regular terms of glass manufacturers are largely 1 per cent 10 days, net 30 days. This has been the case with plate glass for 20 years or more, window glass since December 5, 1916, bottles for 15 years, and with ornamental glass ware. The same terms apply to flint and lime glass (pressed and blown ware) since January, 1916, and for blanks for cut glass, except that the discount period is 15 days. Cut glass since December, 1918, however, carries terms of 1 per cent 30 days, net 60 days. Former terms on flint and lime glass, ornamental glassware and cut glass

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American Association of Flint and Lime Glass Manufacturers, Inc.; Mr. Charles H. Ferris, Assistant Business Manager, National Bottle Manufacturers' Association of the United States and Canada; Mr. T. P. Strittmayer, Quaker City Cut Glass Co., Philadelphia; and Mr. North Storms, Secretary, National Glass Distributors' Association, for reading parts of this section.

[15] Certain of the data in this paragraph have been taken from United States Bureau of Foreign and Domestic Commerce, Miscellaneous Series No. 60.

were 2 per cent 30 days, net 60 days, and on window glass 2 per cent 10 days, net 60 days.

The bulk of sales of plate and window glass and ornamental glassware are made to jobbers, who discount their bills. Various estimates put the proportion of discounted bills of manufacturers of flint and lime glass at one-third to two-thirds (in amount, not number) and the balance take from 30 to 45 or 60 days. Normally, approximately 75 per cent of invoices of bottle manufacturers are discounted, and 60 per cent of those of cut glass manufacturers.

The trade acceptance is not employed in the majority of the branches of the industry, in particular for plate and window and cut glass. Its use in connection with ornamental glassware is very limited, as is also the case with bottle manufacturers. Certain of the latter grant 60 days or 90 days in place of 30 days where the acceptance is employed. A leading manufacturer of pressed and blown glassware estimates that 4 per cent of his accounts (in amount, not number) have been covered by trade acceptances.

Jobbers or distributors of plate and window glass also sell on terms of 1 per cent 10 days from date of shipment, net 30 days. These terms have been applied to plate glass for many years, and were applied about 4 years ago to window glass, following the similar change in manufacturers' terms from 2 per cent 10 days, net 60 days. It is stated that occasionally contractors are permitted to pay 85 to 90 per cent of the contract price by the 10th of the month for the preceding month's deliveries. Trade acceptances are not generally used by distributors except in settlement for carload shipments.

Jewelry.[16]—Twenty-five or more years ago, regular terms

[16] Acknowledgment is due Mr. Sidney Y. Ball, President, Norris Alister-Ball Co., Chicago, for reading this section.

of jewelry manufacturers were 6 per cent 10 days, 5 per cent 30 days, net 4 months. Subsequently, however, competition became very keen. As competition grew, orders were solicited earlier and earlier each year, until business for the fall season, which usually runs from July until January, was solicited as early as April. This tendency was accentuated by the fact that business during the first half of the year is normally duller. As an inducement to wholesalers to place orders early and thus to put the factories at work on them, a season dating of January 1 was introduced, and shipments made during May, June, and early July. This was followed by the institution of a July 1 settlement date on goods for the spring season, which is stated by one authority to have occurred as a result of the dull times in the industry following 1906. In the meantime, the season terms had been applied also by wholesalers to retailers. Aside from the fact that manufacturers had made a like change in their terms to wholesalers, the forces bringing about this change were similar to those existing in the other case. Competition became keener, and efforts were made to induce earlier purchasing and thus avoid extreme congestion at the end of the fall season, as it is impossible for the travelers upon whom the retailers depend to visit each of them at the exact moment when he wants to buy his goods. In addition, there is the fact that the large Christmas business places the retailer in funds. In consequence, the former regular terms of 6 per cent 10 days, 5 per cent 30 days, net 4 months, came to be in little use, and have been characterized as "an old formality which has been in discard for years," terms being either season settlement or 6 per cent 4 months. It is stated that while "the season settlement proposition has been in practice for many years," it has "possibly been abused only within the past 10 to 12 years, during which time it was pretty generally extended to all whose credit was worth

while." In New England, however, wholesalers never adopted it very extensively, due, it has been suggested, to the fact that they cover a smaller territory and enjoy better transportation facilities.

During the war, however, the situation with respect to terms changed. The market began to assume more the appearance of a sellers' market, and manufacturers shortened terms and reduced discounts, in many cases to 2 per cent or 3 per cent 30 days, net 4 months. In consequence, in certain cases there was a similar change in wholesalers' terms. In fact, wholesalers at various times, for example, in 1910, have discussed the question, but no unified action has been taken, the weaker wholesalers having raised strong objection. Existing terms thus present a rather confused appearance, many still continuing the older season settlement terms, while others have reduced discounts and shortened terms as indicated above. With the scarcity of merchandise, certain wholesalers and retailers are reported to have tended to pay more promptly in the hope of obtaining preference in short-time deliveries and on short or desirable merchandise. A leading wholesaler, speaking of the retailer, makes the following statement: "Credit means a great deal in the jewelry business, as the biggest percentage of the medium-sized jewelers throughout the country have emanated from the workbench, and have built up their business on the credit that they have received. Of course, some of these individuals have taken advantage of this credit and misused same, but the larger percentage have built up their stock and gradually are getting in a sounder financial condition, and it will be but a short time when they voluntarily will liquidate their debts in shorter time than in the past."

Data obtained by the committee on terms and discounts of the National Wholesale Jewelers' Association showed that average outstandings of wholesalers on May 1, 1920,

were equal to 83 days' sales.[17] Of the total volume of sales, approximately 38 per cent were made on 30 days' time, 11 per cent on 60 days, 11 1/2 per cent on 90 days, 23 per cent on 4 months, 11 1/2 per cent on semi-annual terms, and 5 per cent on "running account," the average of which, 75 days, approximately agrees with the figure given above.

While the above are the general terms which prevail on jewelry certain items are sold on different terms, both by manufacturers and by jobbers. The principal classification is into standard and non-standard merchandise, the latter of which "needs to be stocked, arranged, examined, and discussed as to price and quality."[18] Terms on American watches are shorter, such as 30 or 60 days, and discounts in many cases smaller, although it is stated that manufacturers generally price their watches on a 6 per cent basis, and wholesalers do likewise. Due to the relatively small number of manufacturers of trade-marked watches, it is possible to take advantage more easily of the existence of a sellers' market. Terms on the item vary somewhat, 6 per cent 10 days or 30 days, net 4 months, being frequently given but without further dating. Sterling silverware largely carries terms of 2 per cent 10 days, net 30 days. Diamonds, the other important non-standard item in addition to jewelry, have been sold on longer time. This is also partly due to the larger amounts involved, in particular where sold in lots and not as single diamonds, and by this means the retailer is enabled to carry a larger stock for show purposes. Moreover, diamond importers have granted very long terms, corresponding to the terms given by European sellers. Cutters' and jobbers' terms have frequently been 8 to 12 months. As a result of scarcity

[17] The figures given in the committee's report represent unweighted averages.

[18] Report of Committee on Terms and Discounts, National Wholesale Jewelers' Association, Mr. Sidney Y. Ball, chairman, presented at the June, 1920, convention.

several years ago, however, both importer and cutter came nearer a cash basis, although the retailer is still used to long time, but is neither demanding nor receiving the old extremely long terms. Four to 6 months' terms are reported, and in some cases cash discounts, such as 3 per cent 10 days, are quoted with these terms.

The situation is concretely shown in the following table, based on data obtained by the committee, both as to the actual time received by wholesalers on their purchases and granted by them on their sales:

	Received	Granted
Diamonds	7 months	4.9 months
Watches	1 month	2.3 months
Jewelry	1 month to season settlement (very mixed).	3.5 months
Clocks	10-30 days	2.5 months
Silverware	1 month	2.6 months
Miscellaneous	...do.	2.1 months

With respect to the cash discount, about one half stated that they were "good-natured," and granted 30 to 90 days extra, with full discount, while the other half were strict.

Wholesalers favored somewhat shorter terms to retailers than those employed, namely, about 4 months on the average on diamonds, 2 months on watches, 2.8 months on jewelry, 1.9 months on clocks and silverware, and 2.1 months on miscellaneous items. Preference was expressed for a 6 per cent discount, both on purchases and sales, and it is also favored by retailers. It was stated that these terms would be practicable, in view of the fact that data obtained from retailers by the committee showed that 67 per cent of the latter's sales are for cash, 15 per cent on

30-90 days' time, 8 per cent on 4 months' time, and 10 per cent on running account. Two-thirds of the retailers expressed themselves as being able to purchase on shorter terms. Data obtained by the committee as to terms on which retailers then purchased showed 64 per cent of purchases made on 30 days' time, 6 per cent on 60 days, 7 per cent on 90 days, 4 per cent on 4 months, 12 per cent on semi-annual terms, and 7 per cent on running account. The average of these is 52 days, as contrasted with 75 days shown by wholesalers as their average terms to retailers, and the correct figure was stated to be probably between the two. Average time received on diamonds was shown as 4 months, on watches 45 days, on jewelry 56 days, on clocks 40 days, on silverware 43 days, and on miscellaneous items 32 days.

The trade acceptance is employed by some leading wholesalers in the industry. Only one-third the retailers covered in the survey, however, had used them, and of these one-third did not like them.

Optical Merchandise.[19]—In the optical trade e. o. m. terms prevail on nearly all accounts, both between manufacturer and wholesaler and wholesaler and retailer, and the 10th is the date specified.

The cash discount of the manufacturer to the wholesaler is 2 per cent on the 10th of the month following date of invoice, at which time the bill is due. The prevailing wholesaler's terms are 6 per cent cash discount on the 10th of the month following date of bill, after which time it becomes net, with some houses immediately due and with others due on the 10th of the month following. The matter of net terms in this connection is not very clearly established nor lived up to. A leading authority estimated, in

[19] Acknowledgment is due Mr. Guy A. Henry, Secretary-Manager, American Association of Wholesale Opticians, for reading this section.

1919, that roughly two-thirds of accounts of retailers with wholesalers were discounted.

The cash discount of 6 per cent is "a relic of the days when the optical business was closely allied with the jewelry trade," although the two lines are now quite distinct and separate and only in rare instances affiliated. It is the opinion of most wholesalers that the 6 per cent discount for cash is an unreasonable premium for prompt payment, and while a few have expressed the opinion that a high cash discount stimulates prompt payment, the consensus of opinion is that a decrease in the discount should not seriously affect the proportion of accounts which are discounted. Many wholesalers desire to reduce the discount to 2 per cent, making it the same as they receive from the manufacturers, but a few have opposed the change, and this has deterred the majority.

A number of wholesalers have been endeavoring to introduce the 2 per cent cash discount by applying this on some of their specialties, and practically all machinery and instruments are now on a 2 per cent cash discount or "net" basis, while 6 per cent is still allowed on ophthalmic lenses, frames, mountings, prescription work, etc. On the Pacific Coast the discount generally allowed and in effect for some time is but 2 per cent on all items.

Wood Pulp and Paper.[20]—Terms in the industry vary according to the type of paper, but in general are on a 30-day basis. It has been stated that "when conditions have been in favor of the mills, discounts from 2 to 3 per

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[20] Acknowledgment is due Mr. Wm. C. Ridgway, Secretary, The National Paper Trade Association, for reading this section, and to Mr. Freas Brown Snyder, President, W. C. Hamilton and Sons, Miquon, Pa.; Mr. O. B. Towne, Secretary-Treasurer, Waxed Paper Manufacturers' Association; Mr. E. S. Wagner, Treasurer, Scott Paper Co., Chester, Pa.; Mr. Wm. W. Baird, Secretary, National Paper Box Manufacturers' Association; and Mr. Henry Burn, President, Wall-Paper Manufacturers' Association, for reading parts thereof.

cent have been in effect, and when the market has been a jobbers' market the jobbers have in a great many instances succeeded in eliminating discounts." Another authority states that "broadly speaking, cash discounts are more liberal in the fine-paper line."

Manufacturers of wood pulp, in general, sell on terms of net 30 days, but a few allow a cash discount, such as 1 per cent on receipt of invoice, or permit anticipation at the rate of 6 per cent per annum.

Paper Manufactures.—Newsprint paper is sold by manufacturers on terms of net 30 days, or settlement is permitted by a specified date, such as the 15th, for all shipments made during the preceding month. A greater proportion of newsprint and specialties is sold by manufacturers direct to consumers than in the case of other products.

Practically all manufacturers of writing paper sell their product on terms of 3 per cent 30 days from date of invoice, while a few manufacturers allow net terms of 4 months on note, with the option of 3 per cent 30 days. A leading wholesaler also reports purchasing this class of paper on terms of 2 per cent 30 days. Little use of the trade acceptance is reported. Manufacturers of writing paper sell practically their entire output to wholesalers and converters, who make up the manufactured finished product into blank books, tablets, envelopes, etc.

The same terms (3 per cent 30 days) are also employed by manufacturers of cover paper and similar paper of the higher grades. Practically the entire product is sold to paper merchants or converters. Some manufacturers of fine or printing paper sell on terms of 2 per cent 10 days, and many on terms of net 30 days.

Manufacturers usually sell book paper to distributors on terms of 3 per cent 30 days. Bills are due net in 31 days. During recent years certain mills eliminated the cash dis-

count and went on a net basis, but the reverse tendency is now apparent. Mills selling the converter (such as the manufacturer of envelopes) or the lithographer, tend to quote a 2 per cent discount, but this is not universal. Terms of paper merchants to printers and other consumers are usually 2 per cent 30 days, and they desire to have manufacturers observe the same terms when selling direct. A few accounts are stated to receive additional time on a net basis and to settle by note or open account. A large percentage of the tonnage is sold on contract to publishers.

Wrapping paper is sold by manufacturers on terms of 2 per cent and 3 per cent 30 days, although in some cases such coarse papers carry only 2 per cent 10 days.

About 60 per cent of the output of waxed paper is sold to the baking industry, and the demand in the southern and Rocky Mountain sections is relatively light compared with the remainder of the country. Prior to May, 1920, adopted terms of the manufacturers' association were 2 per cent 10 days, accounts west of Denver receiving 2 per cent 20 days, but at that time the terms were abolished. Some manufacturers now sell on terms of 2 per cent 10 days, net 30 days, others on net 30 days. During the past decade the period was reduced successively from 30 days to 15 days and to 10 days, with an allowance of 10 days extra to extreme western territories, the discount remaining the same. Glassine and grease-proof papers as a rule are sold on terms of 2 per cent 10 days. Vegetable parchment is sold on terms of net 30 days. A considerable proportion of all other kinds of paper is sold to industrial consumers.

Manufacturers of towels and toilet paper in general sell on terms of 2 per cent 10 days, net 30 days. Some manufacturers, however, grant the cash discount for payment within 15 days, some within 30 days, while others quote 3

per cent 30 days and others give net terms of 60 days, with a cash discount of 2 per cent 10 days. In certain cases longer terms, such as 30 days additional, are granted to customers in distant sparsely settled territory, to which carload-lot shipments are necessary in order to obtain a low freight rate, and a slower turnover thus results. It is stated that practically all this type of paper is sold to paper merchants or converters. One authority estimates that 60 per cent of the product is sold to wholesale paper dealers, 25 per cent to wholesale grocers, and 15 per cent to wholesale druggists and miscellaneous wholesalers. Trade acceptances, while by no means general, are used by certain leading houses, interest in the majority of cases being added for the additional time beyond the regular net period.

Wholesale Paper.—Such houses, in general, follow manufacturers' terms on the several classes of paper. It is stated, however, that coarse or wrapping papers are sold almost universally by paper merchants on terms of 2 per cent 10 days, net 30 days, 10 days e. o. m. terms being granted on running accounts. Among fine or printing papers, newsprint is sold quite generally on net 30 days. Some book papers are also sold on these terms, but these kinds of paper, in general, carry terms of 2 per cent 30 days. In New England, New York City, Baltimore, and the South, 3 per cent 30 days, however, formerly prevailed, and in the South net terms were 60 days. In consequence of a similar tendency on the part of manufacturers, there has been a decided tendency on the part of paper merchants to shorten terms during the past decade and to reduce the discounts. In case of fine papers, up to the opening of 1919 the discount was almost universally 3 per cent, while 6 to 7 years ago net terms were 90 days, which has been gradually shortened until to-day most goods carry net terms of 30 days and but few longer than 60 days. Trade

acceptances are not very largely employed by paper merchants.

Paper Board, Paper Boxes, etc.—In the spring of 1920, manufacturers of box board and paper board successfully changed their terms to 1 per cent 10 days, net 30 days. Prior to that time terms were generally 2 per cent 15 days, net 30 days. In the West, practically the total output is sold direct to the converter or consumer. The converter manufactures the raw material, paper board, into various types of paper boxes, and furnishes these to the user, who packs merchandise in them. The jobber or middle-man has practically no place in the business west of the Alleghenies. In the East, however, with about the same tonnage and value, it has been estimated that he sells probably 20 per cent of the total, the balance being sold direct by the mills to the consumer or converter. Manufacturers sell binder's board on terms of 2 per cent 15 days, net 30 days. Cardboard also bears a 2 per cent cash discount.

Terms recommended, in 1919, by the National Paper Box Association were 2 per cent 10 days, net 30 days, with interest at the rate of 6 per cent per annum on overdue accounts. Present terms are net 30 days, with no cash discount. Extremely limited use is made of the trade acceptance. Practically the entire output of paper-box plants is sold to industrial consumers. Adopted terms of the Folding Box Manufacturers' National Association are 1 per cent 10 days, net 30 days. Prior to 1917, practice with respect to terms was extremely loose. Manufacturers, it is stated, would often make practically a year's supply of goods, warehousing them without adequate charge, and would ship as required by the customer on terms of 2 per cent 10 days, net 30 days. Not over 5 to 10 per cent of the output is sold to dealers for resale, such items being suit and laundry boxes, ice-cream pails, egg containers, etc. During 1920 terms on corrugated and solid fiber boxes were

changed to net 10 days, and collections are generally made within 15 days. Prior to 6 or 7 years ago terms were generally 2 per cent 10 days, net 30 days, and at that time the discount was changed to 1 per cent. The trade acceptance is not used to any great extent. Practically the entire output is sold direct to industrial consumers.

Wall Paper.—The manufacturers' association in this industry adopted the following terms of sale on July 17, 1920: "Three months from date of invoice, provided settlement is made by trade acceptance within 10 days from the first of the month next following date of shipment. For cash payment within the time specified in lieu of trade acceptance, 1 per cent discount per month will be allowed from the date of such payment to the date trade acceptance would have matured. All invoices become due on the 10th of the month next following date of shipment if not settled previously by trade acceptance or cash. Interest will be charged on all overdue accounts. Delays in transportation do not alter these terms of sale. With the foregoing understanding as to settlement, invoices rendered between September 15 and February 1 will carry the latter date, except in the case of invoices covering goods shipped on duplicate orders for fall and winter requirements of goods of previous year's manufacture, which class of shipments carry no advance dating." In other words, by the 10th of the month following that in which shipment was made, the purchaser must decide to settle either by cash or by trade acceptance. If he settles by trade acceptance, he is allowed 90 days from date of invoice. If the shipment was made between September 15 and February 1 the latter is taken as the invoice date, the net due date being May 1. For cash payment discount is allowed at the rate of 1 per cent per month. This makes the figure, in the case of shipments made between February 1 and September 15, which carry no dating, either 3 per cent for payment when

shipped, or 2 per cent 10 days e. o. m. In the case of shipments carrying the dating, the discount will naturally be much greater if payment be made shortly after time of shipment. Thus the schedule of one manufacturer quotes 7 1/2 per cent for payment before September 25, with a decline of 1/2 per cent every 15 days until 3 per cent is given for payments between January 25 and February 10, and the bill is due net if paid between April 25 and May 10.

Since April 12, 1919, the same terms were in effect, with the exception that 30 days was provided in place of the 10 days e. o. m., and note settlement in lieu of trade acceptance was permitted. Prior to that time the dating was March 1 instead of February 1, while prior to about 3 years ago the terms were 4 months instead of 3. The object of the February 1 dating is to induce dealers to accept goods as manufactured, and before they are actually required. Manufacturers can thus deliver as goods are ready, obviating the necessity of extensive warehouse space. Manufacture is commenced about September 1, and the manufacturer has but one season, while the retailer has two—spring and fall.

The above are the terms on regular goods. Plain goods are not subject to the February 1 dating, while 30-inch goods, plain, are sold on a 30-day basis, as are also stock goods (carried over from the year previous and not manufactured again).

Drugs and Medicines.[21]—*Manufacture and Import.*—The drug business as a whole may be generally divided into four classes: (1) Drugs and chemicals; (2) proprietary articles; (3) druggists' sundries, and (4) druggists' and hospital supplies and utensils. The first class may be subdivided into the following groups: (1) Pharmaceutical,

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[21] Acknowledgment is due Mr. W. J. Woodruff, Secretary, American Drug Manufacturers Association, and Mr. C. H. Waterbury, Secretary, National Wholesale Druggists Association, Inc., for reading this section.

including pills, tablets, fluid extracts, etc.; (2) biological, including vaccines, bacterins, anti-toxines, etc.; (3) medicinal and technical chemicals; and (4) crude drugs and essential oils. Perfumes, rubber goods, soaps, soda fountain supplies, cosmetics, etc., are included in the general classification of sundries. Surgical dressings, plasters, bottles, scales, etc., properly belong to the classification of druggists' and hospital supplies and utensils. Proprietary articles include, generally speaking, all so-called patent medicines advertised and sold under trade-marks. The method of distributing the greater proportion of all these classes of goods is from the first hands, either manufacturer or importer, to the wholesale druggist, who in turn sells them to the retail druggist.

Crude drugs and essential oils are assembled in the main by houses which import them as well as distribute domestic goods of this character. Terms on crude drugs, medicinal and technical chemicals and essential oils are almost without exception 1 per cent 10 days, net 30 days.

The same terms apply generally in the surgical dressing field, although the maturity date is frequently extended to 60 days on shipments to the far southwest and to the Pacific Coast and Rocky Mountain territory.

The pharmaceutical branch, including pharmaceutical specialties (semi-proprietary and non-competitive in character), aggregates not more than from 15 to 20 per cent of the total volume of the drug business to-day. The larger proportion, probably 85 per cent, of pharmaceutical specialties, is sold to the retail druggist through the wholesaler, while about 25 per cent of the general pharmaceutical line goes through the wholesaler, the balance going direct from the manufacturer to the retailer. The following are the results of a survey of terms made in 1917:

	Net terms to		Discounts
	Wholesaler	Retailer	
30 days...	17	12	1 per cent 10 days (by all 30-day houses except two, which gave 2 per cent 10 days).
60 days...	4	7	2 per cent 10 days (by all 60-day houses).
10 days...	1	..	
4 months..	1	..	

Private formula business (the manufacture of specialties under formulas owned by others) carried instead 1 per cent 10 days, net 30 days, except for 2 houses giving net terms of 60 days. As a small number of the larger houses, however, extend terms of 2 per cent 10 days, net 60 days, some of the firms having 30-day terms occasionally extend 60 days when insisted upon. It is estimated, however, that 90 per cent of the number of wholesalers discount their bills, and in the case of retailers from 40 to 50 per cent. One authority states that the percentage of retailers discounting varies with the season of the year, the percentage for his house during the first 6 months averaging a little over 40 per cent, falling to almost 25 per cent during the summer months, and then increasing during the latter part of the year to almost 50 per cent. Due to the frequency and small size of purchases, the trade acceptance is not employed by the majority of manufacturers.

Sales of proprietary medicines are made by manufacturers to wholesalers and to retailers, the individual manufacturer usually confining his entire business to one of the two methods. Sales to wholesalers in general carry a cash discount of 2 per cent 10 days, although a limited number grant 1 per cent, some 3 per cent, and quite a

number 5 per cent. Sales to retailers carry the same net terms as those to wholesalers, maturity usually being in 30, 60 and 90 days, with a discount for cash varying from 1 to 5 per cent if invoice is paid within 10, 20, or 30 days. In the case of seasonal preparations, longer time to the retailer is required in off seasons, and up to 4, 6, and 9 months may be given at times. The general average for the industry has been estimated at 45 days.

Sales of druggists' sundries are made by manufacturers to both wholesalers and retailers. Terms for some years have been largely 2 per cent 10 days, net 30 days, from date of invoice, but Pacific Coast customers may be given 2 per cent 30 days, net 60 days. Several leading manufacturers report that from 50 to 70 per cent of their customers discount their bills. It is stated that the trade acceptance is not employed in the industry.

Wholesale Drugs.—Since January 1, 1905, recommended terms of the National Wholesale Druggists Association, to apply to mixed invoices, have been 1 per cent 10 days, net 30 days. These terms prevail practically over the entire country, with the exception of the entire State of Texas and a narrow belt running east from Texas to the Atlantic Coast and including parts of Arkansas, Tennessee, Alabama, and Georgia, where, with a few exceptions, the cash discount is 2 per cent, although net terms are 30 days. It is stated, however, that in these territories the discount is gradually being changed to a universal 1 per cent. An increasing tendency toward proximo terms was reported some years ago and found in particular in the East and Southwest. In 1915 data obtained from 135 houses of dates for the discounting of city bills showed 88 houses which specified the 10th, 26 the 15th, 6 the 5th, and 1 the 20th, while 2 required settlement any time during the following month, 10 twice a month and 2 four times a month.

In a few lines, when sales are large enough to be billed

separately, 2 per cent 10 days, net 30 days, is allowed. On druggists' sundries the cash discount now ranges from 1 per cent to 2 per cent. There has been a movement in various sections to include the item in the general terms of 1 per cent 10 days, net 30 days, which is meeting with some success. New England and the Middle States in 1914 already showed quite uniformly 1 per cent 10 days, net 30 days, while on the Pacific Coast all houses have for the last five or six years employed these terms.

The decrease in the average number of days' business outstanding shown below reflects the movement for the abolition of separate billing of different classes of items.

In connection with druggists' sundries, difficulty is experienced with competition from jobbers of stationery and school supplies who also carry this item. The situation in this regard appears substantially as follows: The retailer has expanded his business to include side lines handled by other retailers also, and a similar change is noted in the wholesaler's business. The latter, however, in this development comes to handle certain lines which are distributed only to a small extent through the drug trade, and thus reaches out to sell these items to exclusive retailers as well as to retailers of drugs. In consequence, a measure of diversity is introduced into the terms on which merchandise is purchased by the wholesale druggist, which is reflected as well in the terms on which he sells. He therefore has undertaken, as in the case of stationery, to induce the members of the other industries to employ the regular drug terms of 1 per cent 10 days, net 30 days. In pursuance of this policy, a committee was appointed in 1915, and reported in 1916 that since January 1 of that year many leading stationery houses had reduced their cash discount from 5 or 6 per cent to 2 per cent. Terms favored were 1 per cent 10 days, net 30 days, on the item, with the exception that where competition from wholesale

grocers, book, stationery and school-supply houses did not permit, 2 per cent might be granted. In 1917, employment of the regular terms was recommended on sundries ordered in the regular course of business, leaving it to the discretion of those who employed special salesmen to make the cash discount 2 per cent instead.

As the retail drug trade is over-crowded, and there is a lack of financial responsibility on the part of its members, the enforcement of terms by wholesalers is rendered more difficult. It has been stated that 44.5 per cent of the 50,000 retail druggists in the country have either no capital rating or one of not over $2,000, 23.5 per cent a rating of from $2,000 to $5,000, and 14 per cent a rating of from $5,000 to $10,000. Ninety-two per cent of those in the first-mentioned class have a second or third grade credit rating or no capital and credit rating at all, while 2/3 of those in the second class have a second or third grade credit rating. In 1919, it was estimated that, of annual sales of $420,000,000, wholesalers carried past due accounts of about $20,000,000. The practice of charging interest on past due balances, or the use of interest-bearing notes, has been consistently advocated. Interesting in this connection also are the following figures showing percentage loss by bad debts.

States	1909	1914	1919
New England and Middle States........	0.37	0.33	0.172
Middle Western States..................	.314	.35	.219
Southern States........................	.56	.713	.248
Pacific Coast States....................	.38	.382	.16
General average........................	.40	.442	.2

While all sections showed a considerable decrease, that for the South was particularly pronounced. As would be expected, the percentage of cash discounters has been in

the past relatively small, the average, in 1916, being reported as approximately 20 per cent, but there has been a substantial increase since that time. An indication of the change in the actual length of terms employed is afforded by the following figures of number of days' sales outstanding:

States	1909	1914	1919
New England and Middle States	55	53.7	39.3
Middle Western States	43	48.0	37.8
Southern States	67	68.0	42.6
Pacific Coast	52	56.0	40.5
General average	54	55.2	40.0

The greatest decrease is again evident in the case of the Southern States.

In view of the interest expressed by a few members, the National Wholesale Druggists Association appointed a special committee which carefully considered the trade acceptance. A referendum vote was later held which, however, "clearly demonstrated that the trade in general does not look with favor upon the use of the trade acceptance in the industry."

APPENDIX

TABULAR STATEMENT OF TERMS OF SALE

Prepared by Dr. John Whyte for the *Credit Men's Diary* from material gathered by the writer.

When commodities appear in more than one column, numbers in parentheses are added. Thus, for example, zinc appears in column 1 with the notation (2) after it, showing that it also appears in column 2.

½ per cent 10d.	½ per cent 10d. Net 30d.	1 per cent 10 d.	1 per cent 10d. Net 30d.	1 per cent 10d. Net 30d. (Cont.)	1 per cent 10d. Net 60d.	1 per cent 10d. 60d. Extra	1 per cent 15d. Net 30d.
1	2	3	4	4 (a)	5	6	7
1. Zinc (high grade) (usual terms) (2)	1. Anthracite coal (certain cases) 2. Bacon 3. Bars (sheet) 4. Coffee (green) (small jobbers) (14) (16) 5. Ham (14a) 6. Ingots 7. Rails (light) 8. Rivets (½" and larger) 9. Rods (wire) 10. Spices (whole) 11. Zinc (high-grade) (terms for purchasers of high standing) (1)	1. Brick (face) (11) (41) 2. China 3. Gasoline 4. Glove leather (12) (14) (24) (33) 5. Hosiery (general) (12) (13) (15) (16) (33) (43) 6. Kerosene (Mid. Atl. States) 7. Overalls (11) 8. Pottery 9. Shirts (working) (11) (15) 10. Shoes (New England) (12a) (14a) (24) (33) 11. Spools 12. Yarn (10) (11)	1. Bolts, rivets, nuts (less than ½") 2. Bottles 3. Boxes 4. Brass, copper. Rods, wire, sheeting, tubing 5. Chemicals & drugs (medical & technical) (5) (8) (14) (23) (11) 6. Cigars (imported) (5) 7. Drugs (crude) (same as 5) 8. Flour (used in rare cases) (10) 9. Glass (plate, window) (7) (8) 10. Groceries (gen. items) (whole.)	11. Ketchup, etc. (12) 12. Lead Sheet (chemical) 13. Lead Pipe (chemical) 14. Oils (5) (12) 15. Paints (14a) (12a) 16. Peanut butter 17. Preserves (9) 18. Sauces (9) (12a) 19. Shipping containers shooks (14) 20. Spices 21. Underwear (knit) (to wholesalers & retailers) (5) (6) (15) (16) (18) (48) (51) 22. Varnishes	1. Cigars (domestic) (4) 2. Drugs & chemicals (4) (8) (11) (14) (23) 3. Medicine (all mixed orders) 4. Oils (branded) (carload or less) (4a) (12) 5. Underwear (heavy-weight) (to wholesalers & retailers) (4a) (6) (15) (16) (18) (48) (51)	1. Underwear (light-weight) (to wholesalers & retailers) (4a) (5) (15) (16) (18) (48) (51)	1. Glass (flint & lime, blanks for cut glass) (4) (8)

1 per cent 30d. Net 60d.	1½ per cent 10d. Net 30d.	1½ per cent 10d. Net 60d.	2 per cent 10d.	2 per cent 10d. Net 30d.	2 per cent 10d. Net 30d. (Cont.)	2 per cent 10d. 30d. Extra	2 per cent 10d. Net 60d.
8	9	10	11	12	12 (a)	13	14
1. Chemicals (Pacific Coast) 2. Cultivators (wheel) 3. Cut glass (4) (7) 4. Lever and disc harrows	1. Beans 2. Chili con carne 3. Clams (minced) (Pacific Coast) 4. Fish (canned) 5. Preserves (4a) 6. Sauces (4a) (12a) 7. Soups (canned)	1. Canned goods (general) (Maine & Colorado) 2. Flour (used extensively) (4) 3. Sardines (Maine) 4. Yarn & thread (rare instances) (3) (11)	1. Brick (face) (3) (41) 2. Drugs (general) (4) (5) (8) (14) (23) 3. Furs (cheap grade) (depending on season) (4a) 4. Lumber (who.) 5. Overalls (3) 6. Shirts (work) (3) (15) 7. Spools & thread 8. Waists (women's) (cheap grade) 9. Yarn (3) (10)	1. Auto accessories (widely used) 2. Coat Leather 3. Coats & suits (33) 4. Corsets (local trading) (14) (33) (36) (49) 5. Druggists' sundries 6. Electrical Supplies (to gen. consumers) 7. Hats (Panama) (33) 8. Hosiery (to retailers) (very extensively used) (3) (13) (15) (16) (33) (43) 9. Ketchup, etc. (4a) 10. Leather (fancy goods) (russet collar) (coat) (3) (14) (24) (33) (28) (26) 11. Linseed oil (4a) (5) 12. Mill supplies 13. Musical instruments 14. Office appliances (14a)	15. Paints (dry) 16. Paints & varnishes (4a) (14a) 17. Paper a. book (publishers) b. printing (fine grade) c. towel & toilet d. waxed (cash discount largely used and net terms unusual) (18) (26) 18. Preserves 19. Sauces (4a) (9) 20. Saws 21. Silverware (sterling) 22. Shoes (to retailers) (3) (14a) (24) (33) 23. Stationery (who.) 24. Talking machines 25. Tin plate 26. Tubes (seamless) (14a)	1. Hosiery (heavy woolen) (3) (12) (15) (16) (33) (43) 2. Nightwear (15) (24)	1. Bale Goods 2. Candy (bulk) 3. Cigarettes 4. Coffee (roast) (2) (16) 5. Containers (shipping) shooks (4a) 6. Corsets (Pacific Coast) (12) (33) (36) (49) 7. Rugs (general) (large who. houses) (4) (5) (8) (11) (23) 8. Dry goods 9. Hardware 10. Implements (agricultural) (season datings) 11. Japanese goods 12. Lard 13. Lead (white) 14. Leather (coat) (fancy goods) (russet collar) (3) (12) (24) (33) (28) (26)

TABULAR STATEMENT OF TERMS OF SALE

2 per cent 10d. Net 60d. (Cont.)	2 per cent 10d. 60d. Extra	2 per cent 10d. Net 90d.	2 per cent 10d. Net 120d.	2 per cent 30d.	2 per cent 30d. Net 60d.	2 per cent 30d. Net 90d.	2 per cent 60d. Net 90d.
14a	15	16	17	18	19	20	21
15. Machine Tools 16. Meats (smoked) (cured) (2) 17. Office appliances (12) 18. Paints (mixed) (4a) (12a) 19. Shirtings 20. Silk 21. Shoes (to retailers) (3) (12a) (24) (33) 22. Spices 23. Stationery 24. Tobacco (smoking) (twist) (plug) 25. Tubes (welded) (12a) 26. Upholstery (auto) 27. Varnishes & mixed paints 28. White goods (15) 29. Wire goods 30. Yarn	1. Blankets (retail) 2. Hosiery (heavy woolen) (3) (12) (13) (16) (33) (43) 3. Merchandise (general) (used extensively) 4. Nightwear (general) (13) (24) 5. Shirts (work) (3) (11) 6. Suspenders (jobbers) 7. Underwear (cloth) (to wholesalers & retailers) (4a) (5) (6) (16) (18) (48) (51) 8. White goods (14a)	1. Coffee (green) (2) (14) 2. Hosiery 3. Silk (thrown) 4. Underwear (general) (4a) (5) (6) (15) (18) (48) (51)	1. Tea (to retailers) (35)	1. Paper (wrapping) (who.) (12a) (26) 2. Skirts (women's) (24) (51) 3. Underwear (light weight) (who.) (4a) (5) (6) (15) (16) (48) (51)	1. Bedding & pillow material 2. Furniture (general) (less-than-car-load lots) 3. Harness leather 4. Upholstered furniture (most cases)	1. Lumber (who.)	1. Leather (shoe soles) (12) (14) (24) (28) (31) (33)

2 per cent 60d. Net 120d.	2 per cent 10th. proximo	3 per cent 10d.	3 per cent 10d. Net 60d.	3 per cent 10d.	3 per cent 30d. Net 60d.	4 per cent 10d.	4 per cent 10d. Net 60d.
22	23	24	25	26	27	28	29
1. Clothing material (men's)	1. Builders' supplies 2. Chemicals & drugs (main business done on cash basis) (4) (5) (8) (11) (14)	1. Cement 2. Envelopes (who.) 3. Leather (coat) (fancy goods) (russet collar) (12) (14) (28) (31) (33) (26) (3) 4. Nightwear (13) (15) 5. Shoes (retail) (3) (12a) (14a) (33) 6. Skirts (women's) (18) (51)	1. Grey goods (unfinished) 2. Towel material	1. Leather (shoe soles) (3) (12) (14) (24) (31) (33) 2. Paper a. book b. cover c. wall d. wrapping (12a) (13)	1. Tiles (general)	1. Leather (shoe soles) (varying with locality) (3) (12) (14) (24) (31) (33) (26)	1. Carpets (made to order) (30)

TABULAR STATEMENT OF TERMS OF SALE

4 per cent 10d. 60d. Extra	4 per cent 30d.	4 per cent 60d.	5 per cent 10d.	5 per cent 10d. Net 30d.	5 per cent 10d. Net 60-120d.	5 per cent 10d. 60d. Extra	5 per cent 15d.
30	31	32	33	34	35	36	37
1. Carpets (regular stock) (29)	1. Leather (upper for shoes) (3) (12) (14) (24) (28) (33) (26)	1. Clothing (men's) (49) (52) 2. Millinery (general) (38) (48) (49) (52)	1. Coats & suits (12) 2. Corsets (to moderate extent) (12) (14) (36) (49) 3. Hats (Panama) (12) 4. Hosiery (general) (to retailers) (3) (12) (13) (15) (16) (48) 5. Leather (uppers for shoes) (3) (12) (14) (24) (28) (31) (26) 6. Shoes (all styles) (to dept. stores) (3) (12a) (14a) (24)	1. Bearings 2. Tire rims (sales by jobbers) (42)	1. Tea (retail) (17)	1. Corsets (retail) (12) (14) (33) (49) 2. Neckwear	1. Tiles (hollow building)

5 per cent 30d.	5 per cent 60d.	5 per cent 30d. Net 60d.	5 per cent e. o. m. (end of mo.)	5 per cent 10th proximo	6 per cent 10d.	6 per cent 10d. Net 30d.	6 per cent 10d. Net 60d.	6 per cent 30d.
38	39	40	41	42	43	44	45	46
1. Collars (men) (43) 2. Gloves (general) (46) (49) 3. Harvesting machines (seasonal variation) (39) 4. Hay cutters (seasonal variation) (39) 5. Millinery (general) (32) (43) (49) (52) 6. Seeding machines 7. Wagons (39)	1. Harvesting machines (38) 2. Hay cutters (38) 3. Trousers (men's) (46) (49) 4. Wagons (38)	1. Furniture (carload lots)	1. Brick (common) (varies as low as 2 per cent depending on locality) etc. (3) (11)	1. Tire rims (34) 2. Tires (rubber) (used extensively)	1. Clothing (men's) 2. Collars (men's) (38) 3. Gloves (general) (38) (49) 4. Hosiery (general) (3) (12) (13) (15) (16) (38) 5. Millinery & braid (32) (38) (49) (52)	1. Spun silk	1. Decorating (interior) 2. Silk (broad) (ribbon) 3. Upholstery 4. Velveteens, etc.	1. Gloves 2. Hats (men's) 3. Trousers (39) (49)

TABULAR STATEMENT OF TERMS OF SALE

6 per cent 10d. to 30d. Net 4 mo.	7 per cent 10d. 60d. Extra	7 per cent 10d.	7 per cent 10d. Net 4 mo.	8 per cent 10d.	8 per cent 60d.	9 per cent 10d.	10 per cent 10d.	10 per cent 10d. 30d. Net
47	48	49	50	51	52	53	54	55
1. Watches (trade-marked)	1. Fabrics (worsted) 2. Lace 3. Underwear (cotton—women's) (4a) (5) (6) (15) (16) (18) (51)	1. Clothing (men's) (32) (51) 2. Corsets (retail) (12) (14) (33) (36) 3. Furs (best grade) (11) 4. Gloves (general) (38) (43) 5. Hats (men's) 6. Millinery (general) (32) (38) (43) (52) 7. Neckwear 8. Trousers (39) (46)	1. Piece goods (55) 2. Woolens & worsteds	1. Clothing (men's) (49) (32) 2. Laces (small industries) (domestic) 3. Skirts (varying with locality (18) (24) 4. Underwear (muslin & cotton) (women's) (4a) (5) (6) (15) (16) (18) (48)	1. Corduroys (men's & women's) (53)	1. Clothing (men's) 2. Millinery (general) (32) (38) (43) (49)	1. Corduroys (general) (men's & women's) (52)	1. Piece goods (woolen) (50)

INDEX[1]

[1] References in index set in bold-face type refer to section on the subject indexed.

(1)